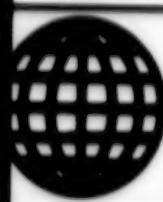


PRS-CAR-90-011  
2 FEBRUARY 1990



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# ***JPRS Report***

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# **China**

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# China

JPRS-CAR-90-011

## CONTENTS

12 FEBRUARY 1990

### INTERNATIONAL

#### GENERAL

Discussion of German Reunification Issue *[RENMIN RIBAO OVERSEAS EDITION 15 Dec]* ..... 1

#### NORTHEAST AREA

Review of Kaifu's Foreign, Domestic Policies *[LIAOWANG No 40]* ..... 2  
Hong Kong Criticized for Meddling in Mainland Affairs  
*[RENMIN RIBAO OVERSEAS EDITION 26 Dec]* ..... 3  
No Tae-u Proposal on Reunification Reported *[Beijing Radio]* ..... 4

#### EAST EUROPE

Report on Changing GDR Political Situation *[LIAOWANG OVERSEAS EDITION No 47]* ..... 4

#### SUB-SAHARAN AFRICA

Education Aid Pledged to Gabon *[L'UNION 7 Nov]* ..... 5

#### WESTERN HEMISPHERE

Commentary on Problems Facing New El Salvador Government  
*[GUOJI WENTI YANJIU No 4]* ..... 6

### POLITICAL

Relationship Between Intellectuals, Communism *[Hong Kong CHENG MING No 144]* ..... 8  
Su Shaozhi Discusses 'Crisis' in Marxism *[Hong Kong PAI HSING No 202]* ..... 11  
Discussion of Divergent Views on Reform *[JINGJI CANKAO 11 Dec]* ..... 14

### ECONOMIC

#### NATIONAL AFFAIRS, POLICY

Enterprises Being Squeezed From All Sides *[ZHONGGUO JINGJI TIZHI GAIGE 23 Oct]* ..... 18  
Effect of Behavior of Economic Entities on Inflation *[CAIMAO JINGJI No 11]* ..... 19  
Policies for Continued Economic Readjustment Proposed *[JINGJI CANKAO 11 Dec]* ..... 25  
Rectification, Retrenchment Policies Examined *[JINGJI CANKAO 11 Dec]* ..... 27

#### PROVINCIAL

Provincial Township Enterprises Work Conference Ends *[Jinan Radio]* ..... 30  
Shanghai Economic Development Outlined for 1990 *[XINHUA]* ..... 30  
Jilin Trade Union Council Holds Plenary Session *[Changchun Radio]* ..... 31  
Shandong Port Promotes Export-Oriented Growth *[XINHUA]* ..... 31

#### FINANCE, BANKING

Securities Market Reemerging in Shanghai *[Hong Kong LIAOWANG No 42]* ..... 31  
Ways To Increase Central Government Revenues *[JINGJI CANKAO 18 Dec]* ..... 34

#### INDUSTRY

Steel Output Quota Fulfilled Ahead of Schedule *[XINHUA]* ..... 36  
Light Industry Expects Six Percent Production Increase *[CHINA DAILY 27 Dec]* ..... 36  
Iron, Steel Company Profits Up 20 Percent *[XINHUA]* ..... 37

## SMALL-SCALE ENTERPRISES

|                                    |                                    |    |
|------------------------------------|------------------------------------|----|
| Rural Enterprise Problems Analyzed | <i>[NONGYE JINGJI WENTI No 10]</i> | 37 |
|------------------------------------|------------------------------------|----|

## FOREIGN TRADE, INVESTMENT

|  |                                       |    |
|--|---------------------------------------|----|
| Problems of Joint Venture Management                 | <i>[JINGJI YU GUANLI YANJIU No 4]</i> | 42 |
| Beijing Develops Textiles for Export                 | <i>[XINHUA]</i>                       | 45 |
| Textile Exports To Reach \$13 Billion This Year      | <i>[XINHUA]</i>                       | 45 |
| Nonferrous Metals Export Figures Reported            | <i>[XINHUA]</i>                       | 45 |
| Tibet Awaiting Resumption of Border Trade With India | <i>[WEN WEI PO 27 Dec]</i>            | 46 |

## ECONOMIC ZONES

|   |  |    |
|---|--|----|
| Hainan's Economic Relations With Hong Kong      | <i>[Hong Kong CHING-CHI TAO-PAO No 40]</i> | 47 |
| Xiamen Joint Ventures Introduce Contract System | <i>[Hong Kong CHING-CHI TAO-PAO No 44]</i> | 48 |

## POPULATION

|   |                 |    |
|---|-----------------|----|
| Foreign Experts View Family Planning Policy | <i>[XINHUA]</i> | 50 |
|---|-----------------|----|

## TRANSPORTATION

|  |                              |    |
|--|------------------------------|----|
| Navigation To Improve Between Hainan, Coast                  | <i>[ZHONGGUO XINWEN SHE]</i> | 51 |
| Transport Quota Fulfilled Ahead of Schedule                  | <i>[XINHUA]</i>              | 51 |
| Third Hong-Kong-Mainland Border Crossing Opens               | <i>[XINHUA]</i>              | 51 |
| New Port on Shenzhen-Hong Kong Border To Open                | <i>[XINHUA]</i>              | 51 |
| Second Line of Hengyang-Guangzhou Railroad Built             | <i>[Guangzhou Radio]</i>     | 52 |
| New Rail Line Links Beijing With Guangzhou                   | <i>[XINHUA]</i>              | 52 |
| Railroad Section in Guiyang Electrified                      | <i>[Guizhou Radio]</i>       | 52 |
| Quinhuangdao Coal Terminal Begins Trial Operation            | <i>[XINHUA]</i>              | 52 |
| Liaoning's Dalian Port Handles Over 50 Million Tons of Cargo | <i>[XINHUA]</i>              | 53 |
| First Class Highway Opens in Shaanxi                         | <i>[XINHUA]</i>              | 53 |
| Longest Dock Passes Appraisal in Shandong                    | <i>[XINHUA]</i>              | 53 |
| Tianjin Port Handles Increase of 14.7 Percent                | <i>[XINHUA]</i>              | 53 |

## AGRICULTURE

|   |                              |    |
|---|------------------------------|----|
| State Council Notice on Pig Production, Pork Supply   | <i>[XINHUA]</i>              | 53 |
| Fujian Officials Urge Deepening of Rural Reform       | <i>[FUJIAN RIBAO 12 Dec]</i> | 54 |
| Hunan Anticipates Good Harvest This Year              | <i>[Changsha Radio]</i>      | 55 |
| Jilin Animal Husbandry Forum Held                     | <i>[Changchun Radio]</i>     | 55 |
| Heilongjiang Grain Purchases Reported                 | <i>[HARBIN RADIO]</i>        | 55 |
| Beijing Vegetable Markets Report Abundance of Produce | <i>[XINHUA]</i>              | 55 |
| Hainan Plans To Transform Low-Yield Land              | <i>[XINHUA]</i>              | 56 |
| Shandong Ranks First in Export of Cotton              | <i>[Jinan Radio]</i>         | 56 |

## SOCIAL

|   |                                   |    |
|---|-----------------------------------|----|
| Zhang Kuiliang's View on Marxism Criticized | <i>[Hong Kong CHAO LIU No 32]</i> | 57 |
| Rampant Gambling Activities Discussed       | <i>[RENMIN GONGAN BAO 8 Dec]</i>  | 58 |
| Provinces Crack Down on 'Six Vices'         | <i>[RENMIN GONGAN BAO 12 Dec]</i> | 59 |

## MILITARY, PUBLIC SECURITY

|   |                                |    |
|---|--------------------------------|----|
| Military Strategy Seen Becoming More Scientific | <i>[JIEFANGJUN BAO 1 Dec]</i>  | 61 |
| Fleet Conducts Wide-Ranging Maritime Education  | <i>[JIEFANGJUN BAO 16 Dec]</i> | 63 |
| Combat Training Faces New Challenges            | <i>[JIEFANGJUN BAO 23 Dec]</i> | 64 |
| Shenyang Military Region Resolves Land Disputes | <i>[JIEFANGJUN BAO 26 Dec]</i> | 64 |
| Reporter Views Prediction of 'Small Wars'       | <i>[JIEFANGJUN BAO 29 Dec]</i> | 65 |
| PLA Industrial Production Increases             | <i>[JIEFANGJUN BAO 29 Dec]</i> | 66 |

**REGIONAL**

**EAST REGION**

|  |                              |    |
|--|------------------------------|----|
| Jiangsu CPC Strives To Enliven Social Sciences     | <i>[XINHUA RIBAO 14 Dec]</i> | 67 |
| Commentator Argues for Continued Reform in Jiangsu | <i>[XINHUA RIBAO 14 Dec]</i> | 67 |
| Fujian Releases Statistics on Lawyers              | <i>[FUJIAN RIBAO 23 Dec]</i> | 69 |
| Deputy Secretary Addresses Shandong CPC Committee  | <i>[Jinan Radio]</i>         | 69 |

**CENTRAL-SOUTH REGION**

|   |                                   |    |
|---|-----------------------------------|----|
| Guangdong Leaders Interviewed on Cadre Investigations     | <i>[KAITUOZHE No 10]</i>          | 70 |
| Schools Faulted for Lack of Patriotism in Curriculum      | <i>[KAITUOZHE No 10]</i>          | 74 |
| Possible Guangdong Leadership Changes Discussed           | <i>[Hong Kong MING PAO 9 Jan]</i> | 76 |
| Guangxi Launches New Struggle Against 'Six Vices'         | <i>[Nanning Radio]</i>            | 77 |
| Guangzhou Teacher Jailed as 'Counterrevolutionary'        | <i>[ZHONGGUO XINWEN SHEJ]</i>     | 77 |
| Hainan Military Holds Seminar on Militia Work             | <i>[Haikou Radio]</i>             | 77 |
| Guangdong Armed Police Commended for Work in Social Order | <i>[Guangzhou Radio]</i>          | 77 |
| Fujian Meeting of Chief Procurators Ends                  | <i>[Fuzhou Radio]</i>             | 78 |
| Guangdong CPC Committee Discusses Multiparty Cooperation  | <i>[Guangzhou Radio]</i>          | 78 |

**SOUTHWEST REGION**

|  |                      |    |
|--|----------------------|----|
| Tourists Visit Tibet Despite Martial Law | <i>[XINHUA]</i>      | 78 |
| Tibet Honors Those Who Quelled Riots     | <i>[Lhasa Radio]</i> | 78 |

**NORTHEAST REGION**

|   |                                 |    |
|---|---------------------------------|----|
| Heilongjiang Reviews Progress in Education, Culture   | <i>[FENDOU No 10]</i>           | 79 |
| Commentary on Party Organizations in Enterprises      | <i>[LILUN YU SHIJIAN No 20]</i> | 81 |
| Jilin Meeting Discusses 'Peaceful Evolution'          | <i>[JILIN RIBAO 28 Dec]</i>     | 83 |
| Jilin Mobilizes Provincial Cadres To Go to Grassroots | <i>[Changchun Radio]</i>        | 83 |
| Liaoning CYL Meeting Discusses Goals                  | <i>[Shenyang Radio]</i>         | 84 |

**TAIWAN**

|  |                                    |    |
|--|------------------------------------|----|
| Taiwan Government Plans To Retain Offices in Hong Kong | <i>[Hong Kong MING PAO 1 Dec]</i>  | 85 |
| Public Opinion Poll Lists Presidential Preferences     | <i>[Hong Kong MING PAO 17 Dec]</i> | 85 |
| Professor Questions Credibility of Opinion Polls       | <i>[TZULI WANPAO 23 Dec]</i>       | 86 |
| Hao Pei-tsun's View on Independence Criticized         | <i>[TZULI WANPAO 24 Dec]</i>       | 87 |
| U.S. Notes Lack of Support for Taiwan Independence     | <i>[CNA]</i>                       | 87 |

**HONG KONG, MACAO**

|  |   |    |
|--|---|----|
| Hong Kong Urged To Avoid Sino-Anglo Maneuvering        | <i>[CHING PAO No 147]</i>                     | 88 |
| Rapid Solution Urged to Problem of Boat People         | <i>[LIAOWANG OVERSEAS EDITION No 42]</i>      | 91 |
| Key Questions Concerning Post-1997 Political Framework | <i>[MING PAO 1 Dec]</i>                       | 93 |
| British Company To Sell 20 Percent Stake to CITIC      | <i>[SOUTH CHINA MORNING POST 22 Dec]</i>      | 94 |
| Decline in Domestic Exports Reported                   | <i>[SOUTH CHINA MORNING POST 26 Dec]</i>      | 94 |
| Macao Economy Flourishes During Transition to PRC Rule | <i>[RENMIN RIBAO OVERSEAS EDITION 29 Dec]</i> | 95 |
| Ke Zaishuo Reflects on Work of Joint Liaison Group     | <i>[WEN WEI PO 10 Jan]</i>                    | 96 |
| Retiring XINHUA Office Head Comments on Reform         | <i>[HONGKONG STANDARD 16 Jan]</i>             | 97 |

## GENERAL

### Discussion of German Reunification Issue

90ON0257A Beijing RENMIN RIBAO OVERSEAS  
EDITION in Chinese 15 Dec 89 p 6

[Article by Zhang Dezhen (1728 1795 4176): "Discussions on the Issue of German Reunification"]

[Text] Recent drastic changes in the German Democratic Republic's (GDR) political situation have made German reunification a hot topic in Western newspapers. Despite world opinion, present circumstances do not permit a unified Germany. But nations in the East and the West are paying close attention to future movements and are vigorously pursuing various kinds of activities.

The two Germanys were created after World War II. Today, as the Berlin Wall comes down, free travel between East and West Germany is possible, and some in West Germany's government circles have suggested that "there has never been a better time" to deal with the issue of German reunification, and there are massive debates in West Germany's political circles; everybody is exploring the possibility of reunification. On 28 November, West Germany's Chancellor Kohl put before the Bundesrat a "10-point plan" on achieving German reunification. This plan calls for the two Germanys to develop a "confederation framework" before becoming a "confederation" eventually. But there is one condition: The GDR must have a "legitimate, democratic government." It openly asks the GDR to "end the Socialist Unity Party's one-party rule" and hold so-called "free elections." The "10-point plan" also makes certain economic demands, asking the GDR to "do away with its planned economy system" and "set up a market economy." Kohl also said that German reunification should be "tied" to the development of a united Europe and to East-West relations. The implication of West Germany's proposal is very clear. It is nothing more than a refurbished version of its usual edition of "self-determination by the people." Just as some Western media have pointed out, West Germany is trying to capitalize on the changing situation and take over East Germany in the name of "reunification."

The announcement of Kohl's "10-point plan" triggered strong reactions in the GDR. Spokesman for the GDR Government charged that Kohl's plan "is not only unrealistic, but can produce chaos" and that "it ignores the Basic Treaty which governs the relationship between the two Germanys and their respective sovereignty and independence as stipulated in the Helsinki Final Act." GDR leaders insisted that "the two Germanys must abide by the principle of respecting each other's sovereignty, territorial integrity, equality, and nonintervention. The question of reunification is not on the agenda." A petition was signed by well-known writers, artists, and scientists opposing Germany's reunification and denouncing West Germany's "arrogant ploy" to

"annex" the GDR. A public poll taken in Berlin indicates that 83 percent of the people support the "continuation of the democratic socialist Germany under one-party rule."

On the question of German reunification, the Soviet leader has reiterated on several occasions that "the question of German reunification is not one that requires an immediate answer." He emphasized that the two German states with two separate governments are recognized by the United Nations and are a historic consequence, and therefore their reunification should also be decided by history. "Human intervention to push through German reunification will only complicate Europe's progress." In a commentary, TASS described Kohl's "10-point plan" as "worrisome," because it fans the "zeal of those in West Germany who openly support the redrawing of national boundaries." The Soviet Union has always maintained that the existing boundaries dividing the European countries delimited after World War II and recorded in the Helsinki Final Act are what "really guarantee Europe's security and stability." The GDR is at the Warsaw Pact's forward position; the Soviet Union alone has stationed an army of 380,000 men there; the GDR occupies a critical position. Some international media have pointed out that German reunification will surely hasten the disintegration of the Warsaw Pact and jeopardize the Soviet Union's post-World War II sphere of influence and threaten the security of its western front. The Soviet Union's worries are not unfounded.

The issue of German reunification is a sensitive one not only in the East but also in the West, because if the two Germanys should become one, it would upset the present balance of power. This will affect not only Europe's situation but the world situation. Each Western country has its own concerns. In a recent speech, U.S. Secretary of State Baker voiced "support" for Kohl's "10-point plan" but also advanced "four conditions" for German reunification: They must abide by the principle of self-determination; reunification may be pursued only if West Germany continues to be a part of NATO and the EEC, and Germany should not "trade neutrality for reunification"; German reunification should be a "peaceful and gradual" process and should promote Europe's "comprehensive stability"; they must accept the present post-World War II boundaries that divide the European countries. On 4 December, at the NATO summit meeting, President Bush reiterated those four conditions. Baker's conditions reflect the mixed emotions of the United States about German reunification. Although President Bush has stated repeatedly that the United States is not worried that German reunification will pose any military threat to the United States, if the two Germanys, with their nearly 80 million people and 2.4 trillion Deutsche marks, should merge into one, it nevertheless will be a serious political and economic challenge for the United States. Moreover, German reunification will ultimately cause the disintegration of Europe's two big military blocs and force the gradual

withdrawal of U.S. military forces from Europe. This will shake up the postwar structure created in Yalta and will bring a whole new set of problems to U.S. global strategy. The reason the United States insists that German reunification must not lead to German neutrality and that the postwar European boundaries must be preserved is to make sure that German reunification will remain on the U.S. European policy and East-West policy tracks, so that it can buy time and steer this process in a direction favorable to the United States.

Most West European countries have a lot of misgivings about Germany's reunification and have given Kohl's plan a chilly reception.

Although some West European countries have expressed "sympathy and understanding" toward Kohl's plan, they are, in fact, terrified that a reunified Germany will become a formidable competitor economically or, worse yet, that the reunified Germany will become the "Fourth Reich" and dominate Europe. West European countries are also worried that a reunified Germany will shake up the present NATO and ECC structures and hamper development of a united Europe centered on the EEC. Some West European politicians even worry that it will "increase the number of power hubs," and that war among nationalities and among states, similar to the situation in 19th century Europe, may erupt. In short, for geographic reasons, Western Europe is even more worried about German reunification than the United States. Recently, French President Mitterrand said, "If we want to preserve the chance for peace, we must not consider rashly changing the boundaries."

East-West discussions of the issue of German reunification have spread to every diplomatic arena worldwide. From the U.S.-Soviet summit meeting in Malta to the meetings among NATO and Warsaw Pact leaders, and from West German Foreign Minister Genscher's Soviet visit to French President Mitterrand's Soviet visit, the issue of German reunification was discussed at every meeting. Reportedly, upon exchanging views, the Western leaders have reached the consensus that German reunification should follow a "gradual course" and that the process should be "under the tripartite control of the European Security Council, the EEC, and NATO." Apparently, neither the Warsaw Pact nor NATO wants to see the existing balance of power upset and Europe's stability wrecked by this issue.

## NORTHEAST AREA

### Review of Kaifu's Foreign, Domestic Policies

90ON0175A Beijing LIAOWANG [OUTLOOK] in Chinese No 40, 2 Oct 89 p 43

[Article by special correspondent Wang Dajun (3769 1129 6511); "General Analysis of the Policy Trends of Japan's New Cabinet"]

[Text] The findings of a poll recently conducted by Japan's media show that the national support rate of the newly established Kaifu cabinet has increased markedly and exceeds its nonsupport rate.

To analyze the characteristics of the domestic and foreign policies of Kaifu's regime, we have to review the political backgrounds of the emergence of this cabinet. In a little over six month's time, the regime changed hands twice. The chairman of the Liberal Democratic Party (LDP) and the prime minister and cabinet aides were shifted about as often as if they were on a merry-go-round. In July's upper house election, the LDP lost its 30-year predominance in the upper house since its founding. The LDP has been discredited by the introduction of consumption tax, the Recruit bribery case, the import policy unfavorable to local farmers, and scandals concerning the private lives of those in power. Foreign trade frictions have sprung up one after another, the United States and Europe have put new pressures on Japan, and so on. In a word, like its predecessor Uno's regime, Kaifu's regime was sworn in at the height of the LDP's troubles.

We should say that Kaifu's regime faces a crisis. Its current domestic and foreign policies are basically a continuation of the policies of Takeshita's and Uno's cabinets. Japan still regards Japanese-U.S. relations as the "pivot" of its foreign relations and attaches great importance to them. Japan's foreign policies are meted out basically by the Ministry of Foreign Affairs, which takes its cue from the United States. With regard to the chronic trade friction problems in Japanese-U.S. relations, Japan works hard to act like it is trying to reduce and avoid such problems in order to alleviate contradictions. In Japanese-U.S. talks held recently in Japan to discuss ways to improve the economic structure of the two countries to reduce trade friction, both sides showed a positive attitude indicating their willingness to continue working on it although they do not expect any results soon. Kaifu's visit to the United States, which just ended, also shows that Kaifu's cabinet will continue to maintain Japan's diplomacy and persist in regarding Japanese-U.S. relations as the pivot. Kaifu visited the United States within a month after he became the prime minister. This is the first since the LDP's dominance in all the previous regimes. Kyodo News Agency said that this visit was largely for show, meaning that through this visit Kaifu wanted to show Japan and the world the stability of his regime and his diplomatic ability.

By the same token, through his visits to Mexico and Canada after his U.S. visit, Kaifu made clear that his regime still adheres to multilateral diplomacy. Through these diplomatic activities, Japan tries to show off its superior economic power in the world and at the same time raises its position in international politics to fulfill its long-cherished wish of becoming a major political power. Not long ago, Japan's foreign minister, Nakayama, attended the Cambodia International meeting in Paris. His goal was to further emphasize Japan's image of working for the cause of world peace.

With regard to domestic policies, in view of the causes of failure of the Takeshita and Uno cabinets, Kaifu's cabinet adopted the following central policies:

1. Increase the openness of politics and reduce corruption and its root causes. This measure was adopted in view of the fact that many important personages of the LDP were involved in the Recruit bribery scandal and that the LDP's "money politics" was placed clearly in front of the people. To be specific, the current stipulation that every member of each cabinet must declare assets will be extended to say that every Diet member must declare assets and income every year. The current regulation that politicians or political groups must report to the government every political donation of over 1 million yen will be changed so that they have to report every donation over 600,000 yen. It will be stipulated that Diet members must not give money or gifts for the funerals or weddings of voters in their electoral districts.

2. Substantially revise consumption tax. The consumption tax was adopted by the LDP on 1 April 1989 to increase the government's tax revenue to make up losses incurred by reducing income and corporation taxes. This tax revenue may reach 6,000 billion yen a year. It stipulates that all priced consumption must pay an amount of tax equivalent to three percent of the monetary value of the consumption. This has increased the trouble and burden on different levels of wholesale dealers and vast numbers of consumers. As a result, consumer complaints are heard everywhere. It is understood that Kaifu's cabinet is considering revising this taxation method.

3. Improve agricultural policy to minimize local farmers' losses caused by free trade. Due to the pressures from the United States and others, Japan adopted the practice of free import of beef and oranges, thus causing great harm to the vast number of farmers raising cattle and growing oranges in Japan. Moreover, the United States also demands that Japan allow the free import of rice, increasing the worry of Japanese farmers. The government will fulfill the promise of Takeshita's cabinet and allot 170 billion yen to help farmers switch to a different variety of crop and make up their losses. The government also announced that it will not allow the free import of rice in the next few years in an effort to gain the support of farmers. As of today, Japanese farmers have been the important political base for the LDP.

From all of the above we can see that it is not that easy to implement some of those policies and principles. For instance, the LDP's "money politics" is not that easy to change. Therefore, as for how much they can really achieve and whether the LDP can tide over the election crisis which will occur probably at the end of 1989 or the beginning of 1990, we will have to wait and see.

### Hong Kong Criticized for Meddling in Mainland Affairs

90ON0258A Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 26 Dec 89 p 4

[Commentary: "Never Let Enemy Forces Abroad Interfere in the Mainland's Affairs"]

[Text] The disturbance that broke out in Beijing between spring and summer of this year was plotted and engineered deliberately by a handful of people who aimed to overthrow the CPC's leadership and China's legitimate government and overturn the socialist system. Their conduct not only violated China's Constitution, but also ran afoul of China's criminal laws. The Chinese Government took decisive action to put down the rebellion and punished according to law the criminal elements who planned, instigated, and engineered the rebellion. It was a just course of action that no government of a sovereign state would refuse to take, a course of action firmly endorsed by the people of all nationalities throughout the country and understood and supported by the governments and people of most countries and regions as well as by far-minded public opinion worldwide. The measures the Chinese Government took to put down the rebellion were entirely consistent with internationally recognized laws and human rights principles.

During the period of disturbance and counterrevolutionary rebellion in Beijing, because they did not realize the truth, and because they were misguided by erroneous news reports and distorted overseas propaganda, many Hong Kong and Macao compatriots took part in assorted activities and demonstrations to voice their support. That is understandable. But in Hong Kong and Macao, especially in Hong Kong, a handful of people had reactionary political objectives and wanted to overthrow the people's government and overturn China's socialist system, and they hustled about, added fuel to the fire, linked up and acted in cahoots with the few counterrevolutionary elements and diehard reactionaries in the mainland, and rendered many hostile deeds against the Chinese Government and the masses of people. The several leaders of the Hong Kong Alliance were exactly the ones playing this very dishonorable role. The counterrevolutionary rebellion in Beijing was later put down, and these people's plot went down in shameful defeat. But they would not resign themselves to defeat and hatched another secret plot, gathered a bunch of society's scum, and started a so-called "rescue the people of the democratic movement" business. By resorting to smuggling, they brought the key counterrevolutionary criminals, whom our public security department has warrants to arrest, to Hong Kong and Macao and then overseas, so that these criminals can escape due punishment by law and, and, nurtured by international reactionary influences, they can continue to engage in anti-China, anti-communist, and antisocialist activities abroad. Of course, the Chinese Government cannot tolerate these acts, which violate Chinese criminal laws and immigration regulations.

The principle of peaceful reunification of the motherland and the concept of "one country, two systems" are China's basic criteria in dealing with the Hong Kong and Macao issues. The Chinese Government has reached separate agreements with the British and the Portuguese Governments. As CPC General Secretary Jiang Zemin pointed out at the meeting celebrating the country's 40th anniversary, "We will not change the capitalist systems in Hong Kong and Macao, nor will we allow anyone to use Hong Kong as a base for overthrowing the central government." This principle in handling our relationship with Hong Kong and Macao is popularly known as "well water not intruding into river water." When mainland people go to Hong Kong and Macao, they must obey local laws. Similarly, when Hong Kong and Macao residents visit the mainland, they must abide by China's Constitution and laws. No matter who attempts in vain to change China's socialist system and engages in criminal activities that are hostile to the Chinese Government within Chinese territory, he will be seriously punished according to law. Let the downfall of Lo Hai-sheng [5012 3189 5116], Lee Lung-rong [2621 7893 1987], Li Pei-cheng [7812 3099 2052], Xie Chen-jung [6200 2182 2837], and Chen Tze-wei [7115 3419 0251] be a lesson for all.

#### No Tae-u Proposal on Reunification Reported

SK1201013690 Beijing International Service in Korean  
1100 GMT 11 Jan 90

[Text] According to Seoul Radio reports, South Korean President No Tae-u in Seoul yesterday declared that South Korea and the United States had decided to reduce the scale of the "Team Spirit-90" joint military exercise to be carried out on the Korean peninsula this spring. The United States and South Korea have staged the joint military exercise every year since 1976. In past years, up to 200,000 troops participated annually in the military exercise, threatening peace on the Korean peninsula.

No Tae-u has acknowledged that tension has not been eased on the Korean peninsula. He raved, however, that the reduction of the "Team Spirit" joint military exercise this year is a reflection of the sincerity of South Korea toward easing tension on the Korean peninsula.

No Tae-u said that he welcomes the new proposal which President Kim Il-song put forth in his new year address to realize free visits and complete openness between the North and South.

No Tae-u said nothing, however, about the important content of President Kim Il-song's new proposal—the demand that South Korea remove the concrete wall that hampers free visits and complete openness. No Tae-u proposed that the top leaders of the North and South hold talks and discuss the question of free visits and complete openness between the two sides. He said that the two sides must first realize the exchange of mail,

communication, and free visits of separated families before reaching an agreement on free visits and complete openness.

#### EAST EUROPE

##### Report on Changing GDR Political Situation

HK0212025089 Hong Kong LIAOWANG [OUTLOOK] OVERSEAS EDITION in Chinese  
No 47, 20 Nov 89 p 29

[Article by Yang Huasheng (2799 5478 0581): "Democratic Germany's Political Situation Is Changing Drastically"]

[Text] In less than a month since 18 October, when the Socialist Unity Party [SED] of the German Democratic Republic held its 9th plenary session of the 11th Party Congress in Berlin and elected its new chief Egon Krenz, the GDR's political situation has changed drastically. This has attracted worldwide attention.

First, Krenz reorganized the leadership of both the party and the government. On 7 November, 44 members of the Council of Ministers resigned, and on 8 November, 18 members of the SED Politburo handed their resignations to the Central Committee. Krenz explained that those members wanted to tell society and people that the party and government bore full responsibility for the current situation and crisis. Present government officials remain to function in a caretaker cabinet until a new Council of Ministers is elected by the People's Chamber. On 8 November, the 10th plenary session of the 11th Party Congress elected a new Politburo headed by Krenz. The session also resolved to nominate Hans Modrow, party secretary of Dresden Prefecture and new Politburo member, as candidate for the chairmanship of the Council of Ministers, the members of which will be elected in the near future by the People's Chamber. Meanwhile, the SED planned a special session of party representatives for mid-December.

Second, the GDR SED leaders proposed a program of action called "Looking Toward the Future." After three days of discussion in the 10th session, they adopted some guideline documents emphasizing that the party's world outlook and philosophy is Marxism-Leninism, and that the alliance of the worker-peasant regime and democratic forces, public ownership of the means of production, planned economy, and forming an alliance with the USSR and other socialist countries, are the prerequisites for strengthening socialism through more reforms. During the session Krenz criticized the party's lack of democracy, isolation from the people, divorce from reality, bureaucratism, reluctance toward reform, and other problems and mistakes.

The new program of action stressed overall, in-depth political and economic reform. Politically, the program emphasized that the current electoral system must be changed and an electoral law should be drafted in order

to ensure a "free, popular, democratic, and secret election," and to ensure the formation of a new People's Chamber and local bodies that are representative of the people and that will act on the basis of people's rights and interests. Economically, the program emphasized establishing a kind of "planned economic system adaptable to the market situation." With regard to party reconstruction, the program stressed the need to reform the party itself, and that, through the reform, the people's confidence in the party would be reestablished and the effectiveness of party actions would be improved.

In Berlin on 10 November, right after the closing of the 10th session, 150,000 members of grassroots-level party organizations marched into the heart of the city for a gathering and to voice their support for the new central leadership and for the program of action. Krenz spoke at the gathering. "We are engaged in a great task, a revolution on German soil, that will make the GDR economically more effective, politically more democratic, morally nobler, to become a socialist country for the benefit of the people." He said, "We are serious about making reform policies. We are willing to give our welcoming hands to all who want to cooperate with us."

On the evening of the 9th the GDR Government announced the abolition of regulations restricting travel to foreign countries and the opening of the border with East Berlin so that people could cross over to the FRG. According to the GDR's minister of interior affairs, on the 10th, or the first day after the abolition of travel restrictions, approximately 55,000 persons left the GDR for the FRG, of whom 3,250 planned not to return again. Then, on the 11th, the GDR issued exit visas for 2.7 million to the FRG. This will have considerable social and economic impact on the FRG, which already has a high 7.5-percent unemployment rate and more than 2 million workers waiting for jobs.

Meanwhile, the drain of a large number of personnel creates new problems as well for the GDR, which is in need of laborers. A group of renowned intellectuals went to a television station on the 10th to issue a joint appeal to the people to have faith in the party's new central collective leadership and to remain in the GDR to build their own socialist homes and farms.

## SUB-SAHARAN AFRICA

### Education Aid Pledged to Gabon

34190040C Libreville L'UNION in French 7 Nov 89 p 7

[Article by Claude Moussavou]

[Text] A Chinese educational delegation visiting our country and its leader, H.E. Mr. Teng Teng, vice president of the State Education Commission, met yesterday in turn with the deputy to the minister for foreign affairs and cooperation, charged with cooperation, Mrs. Honore Dossou Naki; the high commissioner for the minister for national education, Mr. Luc Marat-Abyla; and the minister of state for higher education, Mr. Jules

Bourdes-Ogouliquende. The four-member Chinese delegation, accompanied by the Chinese ambassador to Gabon, Mr. An Feng Shi, and their hosts discussed cooperation in education, scientific research, and higher education.

At Foreign Affairs, Mr. Teng Teng summarized his country's proposals for rekindling relations and Chinese participation in our educational system, especially in secondary and higher education. The deputy minister, Honore Dossou Naki, expressed the government's interest in education for youth and wished for more effective cooperation under the 1986 agreement between the People's Republic of China and Gabon.

At National Education, High Commissioner Yves Marat-Abyla, representing Minister Nzouba, who was detained, referred to the same agreement under which the Chinese Government agreed to send teachers to Gabon. He then expressed satisfaction at the agreement's immediate execution, six Chinese teachers in scientific disciplines having assumed duties in our country's secondary schools as of September 1986.

Mr. Marat said there was an initial communications problem because of the teachers' language, but their determination and will has resulted in successful integration into our society today.

The high commissioner for the minister of higher education also wished that contacts between the Chinese State Education Commission and the Gabonese Ministry for Education would proliferate along new lines of cooperation, especially in scientific fields, since Gabon wants to benefit from Chinese technological experience.

In turn, Mr. Teng Teng told High Commissioner Marat that China is making grants available to Gabon for teacher training in scientific and technical fields. In response, Mr. Marat said the Ministry for Education is opening its doors to all Chinese offers.

The Minister of State for Higher Education stressed the importance of cooperative relations between the USTM [University of Sciences and Technologies of Masuku] and Chinese universities. Consequently, a team of experts will visit our country next year to discuss implementing this cooperation.

In addition, China is also willing to train Gabonese senior management. This is the first visit by a Chinese education team to our country. It reveals the country's willingness to establish more dynamic South-South cooperation, greatly desired by developing countries. The Chinese delegation leaves Libreville today for Beijing.

## WESTERN HEMISPHERE

## Commentary on Problems Facing New El Salvador Government

90ON0219A Beijing GUOJI WENTI YANJIU [INTERNATIONAL STUDIES] in Chinese  
No 4, 13 Oct 89 pp 41-44

[Article by Xiao Yu (2566 3342): "The Situation in El Salvador and Central American Peace"]

[Excerpts] This year [1989] on 1 June, Alfredo Cristiani, the presidential candidate of El Salvador's ARENA [National Republican Alliance] party, officially assumed office following his electoral victory in the March general election. ARENA, which is an organization of the extreme right wing within El Salvador, replaced the Christian Democratic Party to assume leadership of the government. Questions as to what changes this will bring to the internal political situation in El Salvador, and especially what type of impact it is likely to have on the Central American peace process have attracted wide attention. [passage omitted]

Relations with the United States are the most important and most troublesome foreign policy problem facing the Cristiani government. The previous Christian Democratic government enjoyed vigorous bipartisan support from the United States when coming to power and while in power. At the time, the United States was striving hard in Central America to foster a "model of the implementation of a democratic system" in order to prevent the Nicaraguan revolution from having a chain reaction in Central America, while on the other hand trying to keep the influence of the extreme right in check and to establish a peaceful democratic model. For this reason, the United States supplies an average of \$1.5 million per day to the Government of El Salvador, and in recent years, when the country's so-called "death squads" have run rampant and after several U.S. missionaries and embassy security guards have been assassinated, relations between the United States and the right wing in El Salvador have been quite strained. When ARENA leaders visited the United States in late 1988 in a bid to improve bilateral relations, they still received a cool reception. ARENA believed that among the biggest mistakes of the government of [former president] Jose Napoleon Duarte was that it allowed direct United States intervention [in the affairs of El Salvador], and for this reason, less than 48 hours after Cristiani was elected he publicly indicated that he "would not permit direct U.S. intervention."

However, El Salvador's political, economic, and military relations with the United States are deep-rooted, and, in terms of the economy, U.S. aid is a major source of funds for El Salvador's economy. In the last eight years El Salvador has received more than \$3.5 billion in U.S. aid—more than 77 percent of all U.S. aid to Central America. Taking 1987 as an example, the Duarte government obtained close to \$700 million from the United

States, an amount which for the first time exceeded the national budget. In 1984, U.S. aid equaled only one-third of El Salvador's total exports; this has since risen to two-thirds. Hence, any government in El Salvador must face this reality. After Cristiani took office, although he indicated he would not tolerate direct U.S. interference, at the same time he expressed a desire to improve relations with the United States and promptly visited the United States. There he reported to U.S. leaders on the political situation in El Salvador, as well as its military and economic circumstances, stating that he personally had no links whatsoever to the "death squads," and stating that his government will respect human rights.

During the general election, the United States gave secret backing to the Christian Democratic Party, while outwardly maintaining a posture of restraint. The United States dispatched a delegation of 23 observers to El Salvador to monitor the elections. On March 20, U.S. State Department spokesman Liderman said that the United States was prepared to support a leadership in El Salvador that emerged as the result of a democratic process, although relations between the United States and El Salvador would depend on the new government's stands on democracy and human rights. The ascension of the Salvadoran right wing signifies the failure of U.S. policy in El Salvador, but, in order to safeguard U.S. interests in Central America, the United States does not want to abandon El Salvador. The recent visit to the country by the U.S. vice president signifies U.S. recognition of the Cristiani government, although what degree of support the United States will provide to this government remains to be seen. [passage omitted]

With the change of government in El Salvador, there is naturally interest as to what effect this may have on the Central American peace process.

One viewpoint on this question holds that the ascension of ARENA means a steady escalation of the conflict within El Salvador, and, under circumstances in which the current problems associated with Nicaragua are moving toward a solution, El Salvador may become the new Central American "hot spot." In view of the lessons of the early 1980's, it is quite difficult to bring about a peaceful solution to the conflicts in the Central American region. Another opinion holds that the central issue in the problems of Central America is the tense relationship between the United States and Nicaragua. This relationship, although the Bush administration has abandoned the Reagan administration's policy of attempting to overthrow the government of Nicaragua by military means and come out of the "blind alley," means that the problems of El Salvador are not the key to regional peace and, hence, have little influence on the peace process.

The two arguments described above appear to be mutually opposing viewpoints, and each makes sense to some degree. However, both illustrate the effect and influence the problem of El Salvador has on the Central American peace process.

The problem of El Salvador stems from the time Central America first emerged as a "hot spot," not long after President Reagan took office in 1981. At this time, the Nicaraguan revolution had already been successful, and Nicaragua's neighbors were inspired by this revolution, as the armed power of antigovernment forces in the region underwent significant development. In El Salvador this was especially pronounced, as guerrilla forces launched an all-out attack and appeared to have sufficient strength to seize power. But, upon assuming office, President Reagan pledged that he would "contain the spread of communism in Central America" and prevent El Salvador from becoming "a second Nicaragua." Hence, El Salvador was the focus of U.S. policy toward Central America, and the United States spared no effort in supporting the Salvadoran Government's attempts to crush the guerrillas. Afterward, although the situation in El Salvador was under control, the guerrilla forces proved difficult to exterminate, and Reagan held that this was due to support provided them by Nicaragua, hence, the focus of attack shifted to Nicaragua. Reagan called for the overthrow of the Nicaraguan Government, and the contradictions between the United States and Nicaragua intensified, gradually becoming the focal point of the Central America problem. Recently, the Bush administration has adopted a policy toward Nicaragua based on political and diplomatic methods, and halted military support for the Nicaraguan antigovernment (Contra) forces, generating hope that the "fast knot" in U.S.-Nicaraguan relations can be untied. But at the same time, El Salvador remains a problem for the United States, and the refusal by both sides to compromise in the conflict within El Salvador means that the overall situation has not undergone much change. Former president Duarte once predicted that if ARENA assumed power the civil war with the guerrillas would escalate, and this would result in the people opposing the government, increasing support for the guerrillas among the people. Since Cristiani took office on 1 June, the prospect of realizing peace within El Salvador has shown no signs of a positive outcome. In early April the Salvadoran guerrillas began and were able to sustain a military offensive in six provinces, using the slogan "down with the dirty war, oppose repression and the government's economic plan." The right wing, which has consistently advocated the use of an "all-out war" to destroy the guerrillas, then demanded that the government implement the "martial law method." At this time, assassinations and kidnapping activity within the country continuously increased, and terrorist activity and repression alternately escalated. Only one week after the new government took office, two high-ranking officials were murdered. Each side criticized the other over this incident, and negotiations between the government and the guerrillas made no progress. The government proposed that a dialogue committee be organized first, but the moderates and guerrilla forces both rejected this for different reasons. In reality, the government insisted that there could be no negotiation on the question of power. And though the conditions of the guerrillas were somewhat reduced from their previous demands, their demand for the punishment of the real power behind ARENA, [former Army colonel] Roberto

D'Aubuisson, was very difficult for the government to accept. On 24 July, Guillermo Ungo, a leader of the Salvadoran left wing and deputy chairman of the Socialist International, issued a warning about the situation in El Salvador. He believed that, due to the "hesitation to move forward" in negotiations and the economic measures announced by the government, an "explosive" and dangerous situation existed within El Salvador, and, for this reason, the possibility that El Salvador would once again become the "hot spot" of Central America could not be ruled out.

However, the trend developing in the situation in El Salvador that worries people is different from the circumstances in which the country emerged as a hot spot in the early 1980's. This is due to the fact that, first, for a long time Central America has been subjected to the influence of outside intervention, as the two superpowers, the United States and the Soviet Union, both politically and militarily vigorously supported various sides in the Central American conflict. During his term, President Reagan may be taken as representative of the tendency toward even more flagrant U.S. Government intervention. In El Salvador, the United States supported the Christian Democratic government of Duarte in its efforts to encircle and crush the guerrilla forces, who were supported by the Soviet Union, Cuba, and Nicaragua. The events of the last several years make clear that either side will find it difficult to completely destroy the other on its own. In line with the warming relations between the Soviet Union and the United States, their disputes over Central America have also involved a change in tactics. The Bush administration finally put an end to military support for the forces fighting against the Nicaraguan Government (the Contras). The Soviets have also stated that they will not continue to supply Nicaragua with military aid. These developments are of extreme importance to the peace process in Central America. Second, the circumstances of Nicaragua's support for the guerrilla forces in El Salvador have also undergone a change. Nicaragua has halted military aid, the military headquarters of the Salvadoran guerrillas has also been moved from Nicaragua back into El Salvador, and Nicaragua has strongly encouraged the guerrillas to conduct negotiations with the government. In addition, the other Central American countries, in terms of their own interests, all require a peaceful environment. Hence, it may be said that the "microclimate" of the situation in El Salvador is having a difficult time reversing the "macroclimate" of the regional peace process. However, when all is said and done, El Salvador is a component part of Central America, and the course of developments there can produce direct effects on the regional situation. For El Salvador, the Salvadoran Government, under the stress of external and internal circumstances, has shown respect for the Central American agreements, and President Cristiani attended a scheduled fifth Central American summit conference, which convened on 5 August, even going so far as to pledge that within a short period the Salvadoran Government would engage in negotiations with the Farabundo Marti National Liberation Front (FMLN) to end the civil war. However, public opinion was not united on the sincerity of the Salvadoran Government and whether its promises would be carried out, but it is believed that the Central American peace process will slowly move ahead on a bumpy road.

**Relationship Between Intellectuals, Communism**  
*90ON0135A Hong Kong CHENG MING*  
*(CONTENDING) in Chinese No 144, Oct 89 pp 68-70*

[Article by Liu Xiaobo (0491 2556 3134): "Contemporary Chinese Intellectuals and Politics—Part VI"; Part I published in JPRS-CAR-89-047; Part II in JPRS-CAR-89-088; Part III in JPRS-CAR-89-107; Part IV in JPRS-CAR-89-114; Part V in JPRS-CAR-90-006]

[Text] (Never in China's history have the intellectuals made up an independent social force with an influence on society. Instead, they have always depended on the political world. From the standpoint of human value selection, China's intellectuals have always chosen to follow the politicians and to conceive of political values as the highest values in human life.)

Although contemporary Chinese intellectuals were Mao Zedong's favorite target for venting hostility and practicing politics, if we look at the situation from a historical perspective, there are numerous reasons that go toward explaining why intellectuals were forced to integrate themselves with the workers. Among the reasons are the following:

First, there are the sources of Chinese cultural tradition. Although the literati and officialdom of ancient China were aloof from politics, despised the unlearned masses, and promoted a ruthless policy of keeping the people in ignorance, political or "imperial" considerations could prompt them to use the masses as a tool to protect the autocratic system. "Those who win the hearts of the people win all things under heaven; those who lose the hearts of the people lose all things." Because of this, China's literati and officialdom also emphasized the ruling techniques of "regarding the people as the source" and "finding one's enjoyment with the people." This led to both the development of a policy of keeping the people in ignorance and one of literati and officialdom condescending and showing token sympathy for the hardships of the people. However, no matter how much emphasis was put on "regarding the people as the source," the people remained without true power, and it goes without saying that the people did not lead the intellectuals. In other words, in the Chinese conception of "the people as the source," only "the livelihood of the people" and "the enjoyment of the people" exist. "The rights of the people," although most fundamental, do not exist. Making the people's lives stable and secure is the way to consolidate the despotic system. As a political tool, the "people" have been exalted by literati and officialdom to the point of receiving the exorbitant praise in "the people come first, the nation is next, and the leaders are last." As a political body, the people have been relegated to the lowest level in society, with no power to speak of. Mao Zedong thoroughly and cleverly developed this tradition. Such slogans as "the people are the masters of the nation," "serve the people," and "workers, farmers, and soldiers lead all" bestowed an abstract, illusory power of supremacy upon the people.

The reality was that Mao stripped the people of all actual power over their lives. This divestment of power was accomplished by relying on Marx's, and particularly Lenin's, theories about the proletariat party and the vanguard.

Also, the new Taoism and the new Buddhism (Chan Buddhism) that emerged during the flourishing days of the Song and Ming dynasties may also have had a certain influence in making the intellectuals integrate with the masses. Hui Neng, the patriarch of Chan Buddhism, was basically "illiterate," and so, the Chan sect he established not only went by his rules, advocated the non-use of written characters, relied on mind-to-mind transmission of the truth, and located Buddha-nature in everyone's heart, but it also preached awakening through daily labors, such as "carrying water and chopping wood both contain Buddha-nature," "a day without labor is a day without food," and it finally got to the point where Buddhist devotees "reclaimed their land, cultivated their plots, and cast their lot with the masses."<sup>1</sup> Certain Japanese scholars have written about the production and labor of "Chan Buddhist" devotees, and it is clear that we are not talking only about isolated individual behavior or occasional occurrences, but rather a quite common phenomenon. The new Taoism also preached labor to its adherents and, according to the record, "The northern sect is quite correct in teaching that one must learn to suffer patiently the hardships of labor and work hard in the fields; men of old took care of their own food and drink and would only eat what they themselves produced."<sup>2</sup> Granted, there are complex reasons why religious adherents would engage in labor in this way (such as to sustain their lives or to secularize or make more worldly the "Faramita," or other shore, that stands across from the world of man), but a primary goal obviously was to cultivate moral character through difficult labor. The "Chan sect" of Buddhism and the "All-Truth sect" of Taoism had similar features in the path laid down for adherents: First, "one's nature can be seen by knowing one's mind"; and second, difficult labor should be performed or "one should do worldly work." Moreover, both religions are characterized by their advocacy of simplicity and plainness! Granted, suffering hardships for religion and remaking the intellectual for political ends are completely different activities by nature. However, rulers can also find a certain inspiration from this, and the so-called "broaden the horizon by discipline of the minds" carries with it a certain element of cultivating moral character through hardship. The most lofty reason why Mao made the intellectuals walk the "five-seven" path was that by having the workers, farmers, and soldiers reeducate intellectuals, and by having capitalist notions of an upper class replaced by the world view of the proletariat, the intellectuals would become revolutionary in a faster way.

In addition, there is the influence of Marxism-Leninism. Marx felt that the proletariat (the workers) were the most revolutionary and advanced class in the world, and the only force that could remake the world, exterminate

capitalism, and liberate the whole of humanity. But intellectuals are not an independent social force and only by entering the revolutionary ranks of the proletariat and becoming a member could the intellectual have a bright future and pass through the baptism of the proletarian revolution and become a communist. Furthermore, for any class to become liberated and for any revolution to be successful, leaders and organizers are required. The proletariat is no exception. To carry out a proletarian revolution one needs a vanguard. That vanguard is the proletarian party. The party leaders will lead the proletariat in violent revolution. However, Marxism does not emphasize that the intellectual is the target of the dictatorship of the proletariat, nor does it stress that the violent nature of the dictatorship of the proletariat must be preserved after the revolution is successful. Rather, Marxism holds that the struggle between the proletariat and the capitalist class is the last class struggle in human history. Once the proletariat overthrows the capitalist system, classes will cease to exist. Because the proletarian revolution will eliminate class opposition, the proletariat itself will no longer exist as a class once its revolution is successful, and the proletarian society will no longer need a ruling party and state organs to serve the class. This is the Marxist theory of the downfall of the class-stratified state (a theory constructed on a mistaken understanding of class relations and the natures of a ruling party and the state. I will not elaborate on this here. I will deal with this issue when I criticize the essential works of Marxism.)

Although Marxism managed to divorce the intellectual as an independent social force or as a class from human life, Marx did not deal with the intellectual as the opponent of the proletariat, nor did he suggest applying proletarian despotism to the intellectual. We had to wait for Lenin, the top student of Marxism, before this emerged. Lenin felt that communism would have to be achieved in two distinct stages. First, socialism would be established, and then communism could follow. Thus, he advocated "an endless revolution under conditions of proletarian autocracy or socialist society." Because socialism was to be the first stage of communism, various noncommunist factors would still exist, such as an underabundance of material goods and less than noble morals. The key is that, during the socialist stage when the proletariat has just wrested political power, the capitalist class will not yet be completely decimated and, in particular, old ways of thinking inherited from the capitalist class and old capitalist customs will persist in having an influence on society. In Lenin's words, sending the capitalist class and the capitalist system to the grave will not put the underlying ways of thought to rest. The stench of capitalist corruption will fill the air even from the grave and will poison the soul of the proletariat. Thus, to prevent a later comeback of capitalism, the dictatorship of the proletariat must be strengthened, not weakened, during the period of socialism, and those cruel capitalists who would stage a comeback and oppose the proletariat must be dealt with through violent iron-ricebowl measures. This would naturally include the

intellectuals. In Leninist theory, the intellectual is naturally linked to the capitalist. The poor proletarian was deprived of the right to receive education by the capitalist system. (Neither Lenin, Mao, nor Marx ever examined his own conscience and asked: "Aren't I, after all, an intellectual?") What is even more frightening is that Lenin strengthened the vanguard of the proletariat—the Communist Party—and the absolute power of its leaders, and thereby provided the complete theoretical basis for modern despotism (single-party dictatorship) and the individual dictator. Marx's adoration of violence and Lenin's total approval of a violence-prone proletariat autocracy following the capture of political power provide modern dictators with reasons and justifications for ruthless governance and with classics to quote in support of the same. Every inhumane act of violence, every mistreatment or massacre of human beings, can be justified as acts of the proletariat dictatorship in its battle against capitalists. Both Stalin in the Soviet Union and Mao in China executed Lenin's theory to perfection. Lenin's theories on the dictatorship are completely responsible for making the modern dictatorship even more brutal than its ancient counterpart. Also, Lenin's call for the whole people to strive to become laborers was one reason the intellectuals were pushed into integrating with the workers.

Once "the East is Red, the sun is rising, and China has produced a Mao Zedong" came about, the communist world became altogether different. It then could truly be characterized by "everything hinges on fate and the new ruler could change things again." When it came to dealing with the intellectuals, Mao Zedong was more brilliant than his predecessors. Not only did he apply the proletariat autocracy to them, but he "united" them by using and transforming them with Confucianist "benevolent government" so as to achieve his political objectives. In using the intellectuals, Mao did not merely use their intellects. He also used their social prestige. While countless Chinese were still going hungry, Mao sent the intellectuals off to create atomic weapons in order to demonstrate to the world that China had become a force to be reckoned with. Mao also had the intellectuals organize the so-called democracy party so Mao could point to this proletarian democracy and praise it. In transforming the intellectuals, Mao not only used the jail and the whip, but he also had them "submit to reeducation under the worker, the farmer, and the soldier," which is to say he had them merge as a class with the worker, the farmer, and the soldier. During the period he spent in Yanan, Mao brought his policies regarding transformation of the intellectual to full bloom and committed them to practice. After 1949, Mao was in power and he had the resources to pursue his policy of transforming the intellectuals. The timetable for sending the intellectuals down to perform labor had already become a systematized regulation. This movement really hit a feverish pitch during the "antirightist" and Cultural Revolution periods. However, there are some differences in the motivations during the two periods. Intellectuals

sent down to the farms and factories during the "anti-rightist" period were opponents of the despot-reactionaries, and their being sent down to perform labor was a kind of exile (as was done by the ancient emperors, and in the same way the Russian czars and the Soviet leaders exiled intellectual dissidents). However, forcing the intellectual to "walk the five-seven path" during the Cultural Revolution was done with a revolutionary motto, and the transfer was carried out in the course of making the intellectual one with the laborers and revolutionary. It was called "forging a Red heart everywhere." Thus, those who were denounced and determined to be antirevolutionary were sent off to farms where they would learn to accept despotism. This was much like a prison sentence served on a farm. However, intellectuals who actively participated in the Cultural Revolution and made significant contributions (including high-level intellectuals and Red Guards in the universities) were sent down to transform themselves by submitting to "reeducation" at the hands of laborers and farmers and to help the local farmers build new agricultural villages. The phrase "a wide area where one can use one's talents" was used in this regard. For every item in the "five-seven" path there were exemplars regarded as "advanced five-seven warriors," and some were even regarded as national models and were united with others of similar ilk at every level to form a bureaucratic clique. The "imperial examination" system was replaced by one whereby political cadres were chosen from the agricultural villages. This whole string of policies was formulated by Mao to serve his political ends, and his entire ideological foundation for this was something that he had already created so as to help him do battle against the world and that grew out of his individual hatred of the intellectuals.

Mao was born in a Hunan village in the early 1900's and later moved to the capital of Beijing. Although he was an unrefined scholar, in the eyes of those refined cultural figures who had always lived in the capital Mao was nothing but a bumpkin. Thus, everywhere he went he encountered the cold shoulder and contempt that literati of that time were known for. The only job Mao could get was working as a librarian at Beijing University. In my view, this was a slap in the face that the ambitious Mao would not forget for the rest of his life. Once he came to power he set out to debate the intellectuals by toying with them the way a cat plays with mice. In addition, Mao's early thought shows a strong tendency to regard the ordinary people as pure. This has clear connections to the ancient "people as fundamental ideology." Later, when Mao accepted Marxism, this idea became even stronger for him. Indeed, Mao himself, like an emperor, held strong feelings of contempt for the poor scholars. In my view, as Mao stood in Tiananmen Square in 1949 and looked out upon the people of his nation, and particularly those famous literati who cheered him on, he doubtlessly had the same feelings that the Tang emperor had as he watched the first group of scholars who passed the highest level of the imperial examination file into his hall: "All the heroes are like puppets on my strings."

In their analysis of the social structure of capitalism, Marx and Lenin acknowledged only two classes as having independent social power—the proletariat class and the capitalist class. Intellectuals could enjoy social position only by belonging to one of these two classes. Mao accepted this analysis in its entirety and, linking it to the actual situation in China—namely, that 80 percent of the people were peasants, he set out to give full play to this Marxist-Leninist thought in a detailed fashion. Perhaps the best essays of Mao to fully explain his action in this area are "An Analysis of the Various Classes in Chinese Society" and "A Speech at the Yanan Discussion on the Arts." The first essay divides the independent social forces in Chinese society into two antagonistic forces—the feudal class and the newly established capitalist class are the antirevolutionary force, and the newly established working class and the huge body of poor farmers are the revolutionary class. Existing between these two antagonistic forces and possessing no independence are the so-called petty bourgeois (Mao referred to this class as a "stratum" so as to distinguish it from a class possessing an independent social force.) petty bourgeois are composed primarily of three groups of people: ordinary intellectuals, fairly well-off persons living in villages who are neither landlords exploiting the peasants nor tenants being exploited by a landlord, and small-scale handcraftsmen living in the cities. In a society with class opposition, these groups of people are neither firmly rooted in their allegiance to one force nor are they independent. Their dependence rests in the fact that they are not an independent social force and must depend upon another social force that is independent. Thus, in the course of class struggle, they either come to depend on the reactionary class and become an antirevolutionary force, or else they come to depend on the revolutionary class and become allies with the revolutionaries. Their vacillation refers to the fact that these folk do not have the same steadfast revolutionary demands as do poor workers and farmers. Rather, their only thought is to climb into a higher wealth bracket. But, when they are rebuffed by the wealthy class, they remain unwilling to join forces and become members of the poor class, and so, throughout the course of revolution they vacillate—one moment to the right, the next moment to the left. Mao pointed out that the revolutionary class should combine the methods of assimilation and transformation to sway these folk over into an alliance with the revolution.

Because most intellectuals have been led into the ranks of the petty bourgeois, there is an urgent question which they must answer as the revolution moves forward: with which class should they cast their fortunes if they are to seek a future? In "A Speech at the Yanan Discussion on the Arts," Mao answers this question. He says that the intellectuals should merge with the workers, the farmers, and the soldiers, and use their knowledge to serve. The reason is simple. Because the capitalist class is a reactionary class and the direction in which it is moving will inevitably lead to its death, by following this class one will sooner or later end up digging one's own grave.

However, the proletariat is the revolutionary class and the direction in which it is moving will inevitably lead to a new life. Thus, only by casting his lot with the proletariat can the intellectual assure himself of a new life. In all fairness, this theory of Mao's (Marx and Lenin included) is quite outworn and simply does not fit with the facts of mankind's development. I will have more to say about this later. But, as for the history of the Chinese intellectual, this theory does comport with reality. This leads me into what I want to say about the three factors that caused the intellectual to be forced to integrate with the workers and the issue of the intellectual himself.

Also, in a more fundamental sense, the movement to integrate the intellectual with the workers and the farmer was not carried out for the purpose of moral transformation but, rather, was one facet of a larger political movement. Mao's political motive in advocating that the intellectual integrate with the worker is quite transparent—in the view of a despot, the intellectual is always a card that can be played in a political battle. Use the intellectual when you can, and when he can not be used, punish him. The question is, what was the attitude of the Chinese intellectual himself about the importation of Marxism-Leninism into China?

From a historical perspective, most intellectuals at the beginning of this century had not yet been enticed by Marxism-Leninism. After Marxism-Leninism was introduced into China, the intellectuals slowly abandoned all the other Western concepts they had entertained, particularly democracy, human rights, and individualism, and instead wholeheartedly embraced Marxism-Leninism. Chen Duxiu, Li Dazhao, Lu Xun, and Hu Shi were the four modern pioneers to oppose autocracy in favor of enlightenment. Only Hu Shi remained steadfast in his support of democracy. The other three were swayed over to Marxism-Leninism at one time or another. Chen Duxiu and Li Dazhao were fathers of the Chinese Communist Party and nothing more need be said about them. Although Lu Xun never joined the Chinese Communist Party, in the latter part of his literary career, and particularly during his "leftist alliance" days, he basically abandoned the ideas of democracy he had once embraced and moved instead to Marxism-Leninism. Especially noteworthy are the changes of Lu Xun in the two following ways:

First, in his early days, Lu Xun spoke lucidly about the irreconcilably antagonistic relations between writers and politicians. In fact, he even said that writers are a pain in the neck to all politicians because the writer will never have anything favorable to say about the politician's rule. However, in his later years, Lu Xun stressed the close relationship literature had with revolution and politics, emphasized the political responsibility incumbent upon all writers, and demonstrated a great deal of interest in the "leftist alliance" of literature in support of the Communist Party and politics. What this represents is the transformation of an independent, apolitical intellectual into an intellectual who participates in politics. This transformation led to Marxist literary theory

replacing the pure literary theories of the earlier periods. Most important, in his later years, Lu Xun often looked at the world through political eyes, his works exhibited a strong tendency toward the political, and he lost the independent eye of the writer that he once had possessed.

#### Footnotes

1. See the *Hongming Classic*, Volume 6.
2. See Volume 19 of the *Collection of Qingrong Scholar*.  
(To be continued)

#### Su Shaozhi Discusses 'Crisis' in Marxism

90CN0147A Hong Kong PAI HSING [THE PEOPLE] in Chinese No 202, 16 Oct 89 pp 30-31

[Second part of article by Su Shaozhi (5685 4801 2335): "The Historical Destiny of Marxism in China"—Part 1 published in JPRS-CAR-90-010, 7 Feb 90]

[Text]

#### IV. Mao Zedong's arbitrariness pushed Stalinism to the extreme, departed from Marxism, and led to the start of the Cultural Revolution.

The antirightist campaign launched under the high-handed policy silenced the entire society by intimidation. Mao Zedong thought it was a great political and ideological victory for the socialist revolution, and he began to pursue an even greater "left" adventurism. In 1958, the 2d Plenary Session of the 8th CPC Central Committee adopted the general line for socialist construction. This general line was of markedly "leftist" coloring. In August, at the Beidaihe meeting, "leftist" thinking was pushed to a new high. After that meeting, the Great Leap Forward, which focused on developing the iron and steel industry in a big way, and the people's commune movement raged across the country, and the whole nation was plunged into an extremely feverish state. Under voluntarist slogans such as "the greater the courage of man, the higher the yield of land" and "whatever is thinkable is possible," and under the pressure of Mao Zedong's criticism of the "fence sitters" and the "people who bide their time to take revenge" and the pressure of the so-called movement to "plant red flags and remove white flags," excessive targets, arbitrary directions, boastfulness, and a "communist wind" spread unchecked throughout the country, and economic work was thrown into utter confusion.

The "three red banners" (referring to the general line for socialist construction, the Great Leap Forward, and the people's communes) were voluntarist, utopian, populist practices. Instead of relying on the productive forces, they vainly attempted to rely on rapidly changing the production relations and raising the people's ideological and political consciousness to attain the communist ideal society, departing completely from the fundamental tenets of Marxism.

In 1959, Mao Zedong began to correct the errors he had become aware of and started to pay attention to study and research in basic Marxist economic theories. But he was still influenced by the "leftist" guiding ideology of that time. At the Lushan meeting in July 1959, Mao Zedong wrongly started the criticism of Peng Dehuai and then wrongly launched the "antirightist" struggle. Politically, this struggle seriously undermined democracy in the party and gradually elevated the personality cult of Mao Zedong. Economically, it interrupted the process of correcting "leftist" errors and made the errors last longer. Mainly because of the errors of the Great Leap Forward and the "antirightist" struggle, China's economy experienced serious difficulties between 1959 and 1961, and the country and people suffered heavy losses.

In the winter of 1960, the CPC Central Committee began to rectify the "leftist" errors in rural work and decided on the principle of "readjustment, consolidation, filling out, and raising standards" for the economy as a whole. A number of correct policies and measures were worked out and put into effect. Thanks to these anti-"leftist" economic policies, the national economy recovered and developed fairly smoothly between 1962 and 1966.

#### Erroneous Leftist Ideas Not Eradicated

However, "leftist" errors in the principles that guided economic work were not eradicated. At the 10th Plenary Session of the 8th CPC Central Committee in September 1962, Mao Zedong widened and treated in absolute terms the class struggle that exists only within certain limits in socialist society, put forward in essence the "leftist" guiding ideology of "taking class struggle as the key link," and carried forward the viewpoint he had advanced after the antirightist struggle in 1957 that the contradiction between the proletariat and the bourgeoisie remained the principal contradiction in our society. He went a step further and asserted that, throughout the historical period of socialism, the bourgeoisie would continue to exist and would attempt a comeback and become the source of revisionism inside the party. As a philosophical basis, Mao Zedong stressed the struggle and opposition in contradictions and equated contradiction with opposition and opposition with struggle, thus forming a complete philosophy of struggle. It was a refurbished version of Stalinist philosophy, a far cry from Marxism. It was impossible for opposition to the "left" in the economic sphere and opposition to the "right" in the political and ideological sphere to coexist harmoniously for long. Either the former or the latter would have to prevail eventually. Because the "leftist trend of thought" had long existed in the CPC, it was the antirightist forces that finally prevailed, and a complete "leftist" line came into being in the Cultural Revolution.

In the course of the socialist education movement between 1963 and 1965 in some rural areas and at the grassroots level in a small number of cities, problems differing in nature were all treated as forms of class

struggle or its reflections inside the party. As a result, quite a number of cadres at the grassroots level were unjustly dealt with in the latter half of 1964. Early in 1965, the erroneous thesis was advanced that the main target of the movement should be "those party persons in power taking the capitalist road." In the ideological sphere, a number of literary and art works and schools of thought and a number of representative personages in artistic, literary, and academic circles were subjected to unwarranted, inordinate political criticism. And there was an increasingly serious "left" deviation on the question of intellectuals and on the question of education, science, and culture. In dealing with the question of Stalinism, the initial attempt appearing in the international communist movement to discredit Stalinism was totally misjudged and resisted. In the so-called debate on the general line of international communism, Stalinism was pushed further to the extreme. These errors eventually culminated in the Cultural Revolution.

Mao Zedong's theoretical and practical mistakes concerning class struggle in a socialist society became increasingly serious, not only at variance with Marxism, but also divorced from China's realities. His personal arbitrariness increasingly undermined democracy in the party, and the personality cult grew graver and graver. Owing to shortcomings in the system, the CPC Central Committee failed to rectify these mistakes in good time. Careerists like Lin Biao, Jiang Qing, and Kang Sheng, harboring ulterior motives, made use of these errors and inflated them. This led to the inauguration of the Cultural Revolution.

#### V. Under the rule of Mao Zedong's thought with "class struggle as the key link," an "all-round dictatorship of the proletariat over the bourgeoisie" was imposed. Marxism in China was thrown into a crisis.

With the constant escalation of his sense of class struggle, Mao Zedong launched the Cultural Revolution in May 1966. The Cultural Revolution was based on the feudalistic political and moral concepts of the peasants and small producers, but it donned a "Marxist" overcoat and was combined with the "dictatorship of the proletariat," thus becoming extremely deceptive and destructive.

The theoretical basis of the Cultural Revolution was Mao Zedong's "theory of class struggle in the socialist period" and "theory of continuing the revolution under the dictatorship of the proletariat." According to these theories, because of the struggle between the two classes and the two roads and the danger of capitalist restoration during the entire historical period of socialism, it was necessary to observe everything from the viewpoint of "class struggle" and to exercise "all-round dictatorship of the proletariat over the bourgeoisie" in all spheres, and it was necessary to find "class enemies" not only in society but also in the party. Because "the bourgeoisie is right in the Communist Party," it was necessary to launch the Cultural Revolution to seize power from "the persons in power taking the capitalist road" inside the party. This power struggle was, in fact, a great political

revolution in which one class would overthrow another, a revolution that would have to be waged time and again.

These ideas of Mao Zedong were an extreme distortion of Marxism. Mao Zedong's thought was described as the "pinnacle of Marxism." "Every sentence Chairman Mao has said is truth." "We must follow every word said by Chairman Mao." An absolute cultural tyranny reigned, under which anyone regarded as "opposed to Mao Zedong's thought" could be punished and even sentenced to death. At the same time, the role of ideology was exaggerated to the extreme. It was maintained that consciousness decides everything and can even turn itself into matter. Consequently, material living conditions and economic construction were totally ignored. Anyone who paid more attention to material conditions and economic construction was labeled a proponent of "revisionism" and of the "theory of productive forces." Because ideology was the "commander" and the "soul," and because the only ideology that could exist at the time was Mao Zedong's thought, everything must be done with "Mao Zedong's thought in command," and the people of the whole country must be united in thinking with Mao Zedong's thought. People were not allowed to think independently. Almost all cultural, educational, scientific, and art institutions were paralyzed at that time. The people in the whole country read only one book, *Quotations From Chairman Mao*, and one magazine, HONG QI [RED FLAG], and they could enjoy only eight "model theatrical works." Such ideological confinement and deception resulted in the most serious kind of ossified thinking.

The perverse acts of the Cultural Revolution not only brought the economy and government to the verge of collapse, but also caused extremely serious destruction of the nation's culture as a whole. Marxism in China sank into a serious crisis.

#### VI. Vested Interests, Unwilling To Give Up Their Privileges, Are Trying Their Best To Turn Back the Wheel of History, Throwing Marxism Into Another Crisis

In October 1976 the gang of four was crushed. However, the mistakes made by Mao Zedong in his later years were not exposed and criticized. Instead, they were insisted upon under the slogan of the "two whatevers." The so-called "two whatevers" was an abbreviation for the expression: "We firmly uphold whatever policy decisions Chairman Mao made, and we unswervingly adhere to whatever instructions Chairman Mao gave." The "two whatevers" upheld the "theory of continuing the revolution under the dictatorship of the proletariat," "taking class struggle as the key link, putting politics in command, and the ultra-left line. Marxism lost nearly all the prestige it had enjoyed in China, and there was a "crisis of faith" in Marxism.

In fact, until the "two whatevers" were smashed, no progress could be made, and Marxism could never be revived in China.

On 11 May 1978, the GUANGMING RIBAO published an article, "Practice Is the Sole Criterion for Testing Truth," which marked the beginning of the criticism of the "two whatevers." It concluded that theories, policies, books, or speeches, whatever they may be, must be corrected if proved wrong by practice, and that they have the right to exist and should be upheld if proved correct by practice. It heralded the restoration of the Marxist ideological line.

The crushing of the "two whatevers" prepared the conditions ideologically for the 3d Plenary Session of the 11th CPC Central Committee. The plenary session, held toward the end of 1978, put forward the principle of "emancipating the mind, using our brains, seeking truth from facts, and proceeding from the actual conditions in everything we do." It decided to put an end to "taking class struggle as the key link" and to shift the focus of work to economic construction. The long-practiced "leftist" line came to an end, and the Marxist ideological line was restored. China entered a new period. Marxism began to revive in China.

A milestone in Marxism's revival in China was a theoretical discussion meeting held by the CPC Central Committee in January 1979. The meeting lasted several weeks, and the discussions focused on a wide range of theoretical questions of great practical significance, including historical, political, economic, cultural, and educational questions. Many noteworthy new ideas were put forward, preparing the ideological and theoretical conditions for the reform and opening to the outside world and for the creative study and development of Marxism.

The reform began after the 3d Plenary Session. The reform is not only opposed to "left" deviation, but also calls for breaking with all the old conventions hindering modernization. Many of the old practices were not only regarded as "socialism" and "Marxism," but were also directly related to some people's personal interests. In the course of the reform, people whose interests and ideological leanings differ drift gradually apart, and their differences become apparent. In the ideological sphere this fact is reflected as contradictions and struggles, which have kept occurring since the downfall of the "two whatevers."

These contradictions and struggles in the ideological field, if conducted according to the principle of the freedom of academic discussions, are a good thing, by which truth can become clearer through debate, and Marxism can develop under new conditions. But, in China, owing to the influence of cultural tyranny, some people, posing as "theoretical authorities" and "defenders of the purity of Marxism," relied on the power and influence of leaders to make conclusions and to criticize, to put political labels on, and to attack those who disagree with them. Yet, China's intellectuals today are no longer the obedient slaves of the Cultural Revolution period, who "acted according to Chairman Mao's instructions even if they did not understand." And, even

if they are forced into temporary silence when they are under attack, they will offer new arguments and become active again when they get the opportunity. "Criticism, silence, activity, again criticism, again silence, and again activity." This is the cycle through which China's ideological circles have on the whole moved repeatedly since the 3d Plenary Session of the 11th CPC Central Committee. With each cycle, Marxism is developed through practice.

#### **Return to the Beaten Track of Taking Class Struggle as the Key Link**

The two most pronounced criticism movements were the "clearing of ideological pollution" (1983) and the "opposition to bourgeois liberalization" (1987). Correspondingly, 1982, 1984, 1986, and 1988 were ideologically active years. In recent years, China's ideological circles have raised the following major questions: 1) A new understanding of Marxism: The emphasis should be on the present crisis and pluralization of Marxism, and Marxism should be studied with a practical, developing, creative, critical, and open viewpoint. It is necessary to recognize that some aspects of Marxism have outlived their usefulness. 2) A new understanding of capitalism: A distinction should be made between modern capitalism and traditional capitalism. Although modern capitalism cannot cast away its inherent contradictions, it has changed considerably from traditional capitalism. It now provides new room for the development of productive forces, and it has become quite adaptable and flexible. Therefore, some judgments made by Marxism about capitalism need to be revised. 3) A new understanding of socialism: A distinction should be made between modern socialism and traditional socialism. The ideas about socialism of the 1930's and 1940's should be discarded. It is necessary to recognize the drawbacks of traditional socialism and the need for overall reform. It is necessary to accept the pluralization of socialism, the pluralization of ownership, that socialist economy is a planned market economy, that socialist politics means democracy, that the Communist Party itself needs to be reformed, and that it is possible to have a multiparty system. 4) A new understanding of the value of man and humanism. It is pointed out that "man" is the starting point of Marxism, that the ultimate goal of Marxism is the liberation of man, and that humanism is the primary condition of socialism.

Despite setbacks, Marxism in China is developing in a creative way with the practice of the reform and opening to the outside world and the emancipation of the mind. Marxism in China is regaining its vitality.

However, some people of the leading strata with vested interests in China, trying to protect their vested interests and proceeding from a rather stubborn Stalinist concept of value and way of thinking, still regard the reform, opening to the outside world, and development of Marxism as a deviation from the Marxist and socialist direction. Even though some leaders are in favor of reforms and opening to the outside world, they are

unable to get out of the old pattern of opposing "left" deviation in the economic sphere and opposing "right" deviation in the political and ideological sphere. In the contradiction, they often allow the antireformist forces to gain the upper hand, and they cannot tolerate the democratic demands to overthrow the feudal autocratic privileges and arbitrary dictatorship. After the "clearing of ideological pollution" and "opposition to bourgeois liberalization," they suppressed with military forces the peaceful democratic movement of students and citizens in June 1989 on the pretext that the movement was a counterrevolutionary rebellion. They are bound to return ideologically to the disastrous old track of "taking class struggle as the key link," voluntarism which stresses politics and ideology, and rigid Stalinism. Marxism is again in a crisis, and this crisis is still developing.

23 June 1989

#### **Discussion of Divergent Views on Reform**

900N0242A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 11 Dec 89 pp 1, 4

[Article by Li Yingyue: "Two Divergent Views of Reform"]

[Text] **Learning From the Study of Theory After Comrade Jiang Zemin's National Day Speech**

Major differences exist between the standing proposals of the Central Committee and Comrade Deng Xiaoping, who hold that reforms must follow the path of self-realization, and of those who support liberalizing the capitalist class and demand "complete Westernization":

Different bases for objectivity. Different systems proposals. Different proposals for the machinery to move the economy. Different ideas on assignment of work in society. Different political direction. Different goals in reforming the political system. Different proposals in what is needed to get democracy in motion. Different viewpoints of political style. Different theoretical bases.

In his speech celebrating the 40th anniversary of the founding of the People's Republic of China, Comrade Jiang Zemin pointed out to the audience that, "on the question of reform, there are clearly two kinds of dissimilar proposals. One, long championed by the Central Committee and by Comrade Deng Xiaoping, follows the socialist road, solidly emphasizing the democratic dictatorship of the people, led resolutely by the Communist Party, and faithfully following Marxism-Leninism and Mao Zedong's thoughts on reform, thus reaching self-completion under socialism. The other, just as resolutely, pushes for liberalization of the capitalist class, demanding that China be "completely Westernized." The four points of their proposal serve only to create schisms, deviations, and confrontations. The true nature of such "reform" is to put the people of China under a Western capitalistic system. We must draw a clear line of

demarcation between the two views in thought and theory. Both are roads to reform. Then where do they differ?

#### Different Bases for Objectivity

According to socialist reform advocates, in the initial phase, our basic contradiction is that between production relations and productive forces. There is also contradiction concerning the superstructure's suitability for the economic base. Once the party makes changes to achieve suitability, reforms must proceed without delay. Socialism depends on reform as a major motivation for development. In a society that is constantly building and making improvements, the development of socialism toward self-perfection necessitates revising, perfecting, and rebuilding those factors that impede productive forces and democracy, and that create corruption and are detrimental to the development of the socialist system. Reforms and changes to specific systems that do not fit the requirements of productive forces and socialism must be made so that the socialist system's basic requirements are met and the power of socialism is enhanced, and so that the superior qualities of socialism will be fully employed. But those who push the capitalist reform line consider the reason for reform to have been that 40 years of socialist building have been a failure, the party leadership has not been successful, and Marxism-Leninism has been wrong. Fang Lizhi, Jin Guantao, and others have openly proclaimed that the "socialist system is a stumbling block in the development of China," "the failed test of socialism is the legacy of the 20th century," and "socialism can lead only to slowdowns and stagnation." These remarks fully reveal their opposition to socialism and the leadership of the party.

#### Different Systems Proposals

Socialist reform proponents maintain that a predominantly public ownership will best benefit the socialist economy. Using realistic criteria for productive forces and objectively developed requirements, a varied, multicomponent economic system, including individual and private enterprises, joint Sino-foreign investments, cooperative and foreign-financed ventures, will help the economy and replenish vitally needed functions. Large and mid-sized enterprises constitute the major support and vital economic lifeline for our national socialist economy. The vital cog in the reformed economic system is the full utilization of such key functions—their increased vitality holds great significance for our nation's economic development. But those advocating the liberalized capitalist approach deny the leadership position and functions of socialism, mouthing promises to reconstruct public ownership, but really practicing private ownership. As Su Shaozhi clearly stated, "privatization is clearly the machinery that transforms currency into capital." As the WORLD ECONOMIC JOURNAL wrote, "reform problems are simpler than imagined, all one has to do is have 'private ownership' and 'private management.'" Also, "this is the only way to succeed." And "there is no need to restrain the growth of

the nonsocialistic part of the economy; its growth rate has far outpaced the public portion. There is no need to worry no matter how much faster it is growing. What we must be concerned with is not how fast it is growing but how serious are the obstacles impeding growth." And finally, "privatization is the effective path for China to shake off its poor and backward condition." This is incontrovertible evidence of the scheme to replace socialistic public ownership with private.

#### Different Proposals for the Machinery To Move the Economy

Socialist reform advocates believe that a socialist economy is a commodity economy based on public ownership. The goal of reform is to work hard to produce a socialist commodity economic system that, recognizing China's uniqueness, will bring together an economic and market system compatible with that uniqueness. During change, one must do the utmost to avoid, prevent, or restrict inflation. But the capitalist reform advocates deny a planned economy, and want to rely on the ups and downs of the market, speeding up those changes that would benefit private ventures, saying that this would promote a rational economic structure. They scheme to polarize commodity producers, concentrate capital and isolate the relationship between capitalism and production from other forces. Thus would the economic machinery metamorphosize into capitalism.

#### Different Ideas on Assignments in Society

Socialist reform advocates believe that, in the initial phase, in order to develop the components that make up an economic system whose key feature is public ownership, work assignments must adhere to an allocation system that stresses appropriate division of labor. One must promote prosperity that arises from honest hard labor, but must stay in the direction of common socialist prosperity. But the "capitalist liberalizm" advocates and those in leadership positions who support them have ignored for some time the cries of the masses, and have been permissive toward private enterprise and individual ownership, giving a green light to illegal enterprise, scheming, official and private wrongdoings, and getting wealthy illicitly. They have been "legitimizing" and rationalizing those decadent activities that siphon off public wealth and make the division of labor inequitable.

#### Different Political Direction

Socialist reformers that reform means the self-improvement and self-development of socialism. The fundamental goal is to build a new system that will suit our nation's situation, and thus promote production forces and socialist, democratic political development that will fully exercise the superiority of socialism. Thus, any reforms must adhere to socialist direction and proceed on the four basic principles. But the "capitalist liberalizers" oppose the scientific differentiation and directional selection of "named capital" or "named

society." They proclaim that reform is a lesson in "remedial capitalism." They wave banners that scream "refamiliarize oneself with capitalism." They are unbridled in their essays on the failure of socialism, on socialist utopianism, on the inability of socialism to compare with capitalism, or that socialism should be considered together with capitalism as one, blurring the difference between the two, but claiming that both are on the same road at a similar rate of development. They also claim that the economic and political thought and ideological differences are disappearing gradually and that they are getting closer together by the day, culminating in a similar type of society. Thus, they claim that socialist and capitalist development are heading in the same direction.

#### Different Goals in Reform of the Political System

Socialist reformers believe that the fundamental goal is to move another step closer to a socialist democratic political system that would be appropriate for our nation's special characteristics and to establish a well-equipped democratic legal system, one that is highly efficient and will vitalize the socialist political system. The high-priority mission of reform is to separate party from government, loosen the strings of political power, and establish a system that will help achieve the greatest efficiency, increase vitality, and utilize activist leadership from all sources. It should fully exercise the functions the party performs in socialist matters and increase the vitality and survivability of the socialist system, thus pushing toward political democracy. But the "capitalist roaders" propose a Western capitalistic multiparty system that rotates different parties in and out of office and establishment of a capitalist democratic system. They praise a multicomponent, multiparty parliamentary system, "separation of powers" and say that "democracy has no East and West distinctions." Their real nature is the denial of the coalition party system under the Communist Party's leadership with a People's Congress, and then to go on to achieve their goal of antiparty, antidemocratic people's dictatorship, and set up a capitalist system.

#### Different Proposals To Get Democracy in Motion

Socialist reformers believe that, in a socialist system, the people are the masters and should enjoy and be relied on to participate jointly in deciding national political, economic, and other matters. Developing socialist democracy is a special requirement of socialism. We must continue to perfect our People's Congress, multiparty coalitionary cooperation under the leadership of the Communist Party, the political consultative system, and establish and nurture democratic determination, democratic supervision procedures and systems, and expand the road to liaison and dialogue with the masses. It must raise the citizen's consciousness to participate in politics and guarantee that aspirations and benefits in life and community will be realized. But the capitalist advocates promote "elitist" politics and newly professed rights, claiming that China's political reforms must be led by a

"political elite" which is to be complemented by a "cultural elite." According to them, guidance must come down from the top for "modernization." Their "modernization" is "Westernization."

#### Different Political Viewpoints and Style

Socialist reform advocates believe that adherence to a reformist, upright party and political deportment is complementary with creating a civilization in the spirit of socialism. Correction of improper deportment and establishment of a civilization with socialist spirit will not impede reform, but will instead create the good social environment for reform, guaranteeing that reform will proceed smoothly in the proper direction. To execute such a basic desirable turn will raise the party's cohesiveness, attractiveness, and combativeness. It will implement party leadership and guarantee the adherence to the party line, principles, and policies. It will build a socialist-minded civilization and develop honest politics. If we do not solve the problem of political deportment, we will be unable to guarantee our party's position of power. But the capitalist advocates feel that, during reform, improper deportment and corruption are inevitable; they are natural products. To facilitate reform, one must permit the existence or even allow the development of corruption. There are some among them, and among their supporters in power who go even further, who believe that corruption is beneficial. They believe that, in certain circumstances, corruption acts as a lubricant in economic development, that without it, there would not be such development, particularly in the private economic sector.

#### Different Theoretical Foundations

Socialists believe that Marxism is the acknowledged foundation. Marxism represents the worker's scientific view of the world, it is the basis for socialism and for party leadership. It is the great motivating power for the spirit to modernize our socialist society toward victorious conclusion. It is the guarantor that our reform will move in the proper direction. The success of reform is inseparable from Marxist guidance and from Marxist theory. The capitalist roaders maintain that "truth is multifaceted." They say that there is "no single truth, that it has many different weights." "Marxism is but one of many." "Marxist dogma must be overthrown." "People must not be imbued with Marxism." "Political thought education activities must be abolished." They mouth "developing Marxism," but boast of "overthrowing some important Marxist teaching facets," denying the historical value of Marxism and the contributions made by Marxist leadership in the ideological arena. They even malign Marxism calling it "passe," a destructive rather than constructive theory. They claim it has not been "feudalized" in China, that it is about to "flicker out," that it cannot solve today's new problems. Therefore, one must break through its basic theory and create a "new theory." They even go to the extent of pushing for Western capitalism's various "new concepts" to "rebuild" Marxism. They proclaim that they must give

a rightful name to "individualism," that "Man is by nature selfish" and "selfishness is the motivator in history." To develop a commodity economy one must look "to the money." There must be a consciousness of

the "individual." From this, one can clearly see that they wish to replace Marxism with capitalism and can perceive the reactionary nature of their ideas of reform.

## NATIONAL AFFAIRS, POLICY

### Enterprises Being Squeezed From All Sides

90OH0169A Beijing HONGGUO JINGJI TIZHI GAIGE [CHINA ECONOMIC SYSTEM REFORM] in Chinese No 10, 23 Oct 89 pp 50-51

[Article by Su Jiguo (1372 1015 0748): "Contract Enterprises Under Attack from All Sides"]

[Text] Recently, at a conference of plant directors from 48 representative enterprises in the city of Taian, the focus was on reports that contract enterprises are currently being pressured from all sides. In their discussions of how to rectify, how to perfect the contract management responsibility system and move forward in stimulating their enterprises' vitality, the directors also raised some general suggestions and demands.

#### The Pressure of a Rigid Base

On the one hand, there is a rigidly fixed base figure of profits which enterprises hand over to higher authorities, while on the other hand circumstances external to the enterprises are changing rapidly. At present, regardless of industry or funding policy, no matter whether it be product sales, supply of energy and raw materials, etc., all are considerably different from what they were at the outset of the contract. This contradiction between the absolute "rigidity" of the base profits and the relative "flexibility" of the external circumstances, puts severe pressure on the contracting enterprises. To take funding as an example, due to the lack of a real system of allocating accounts, and certain historical factors, most enterprises for many years have kept up production mainly through reliance upon a circulating financial payment quota which is appraised and fixed by the banks. But after the nation implemented its tight money policy, banks reduced the scale of their loans, so that some of the enterprise funding was difficult to continue, causing a drop in production and a big decrease in profits. According to statistics from a system of 27 mainstay mechanical and electrical enterprises, in the first half of this year due to the influence of various factors, the value of total industrial output dropped 3.8 percent compared to the same period last year. Profits dropped 14.9 percent, with six enterprises taking losses, and deficits reached 2.71 million yuan. Plant directors predicted that some enterprises would be incapable of fulfilling by the end of the year their original contractual responsibilities for the first half of the year.

In order to turn this state of affairs around, they recommend prompt establishment of a system for enterprises and finance which has a two-tiered risk. First of all, establish common enterprise financial risks. While adhering to the principles of the fund allocation system, take the reserve built up over the years through enterprise contracts and then use that reserve to form fixed assets and supplementary liquid funds, which will be assigned to enterprise loss risk funds. Use of these would

be controlled by the enterprises, creating for them the conditions for having the economic base to assume risk and self-accumulation. Secondly, focus on setting municipal and county financial risk funds. In the process by which enterprises hand in profits, extract a designated proportion of these for use as risk funds, low interest loans based on irresistible factors or sudden changes in the market price, adjustments in the commodity structure, etc., which lead to funding shortfall pressures on enterprises. Or, use these to compensate enterprises for losses which are due to policy.

#### Pinched Between Rigid and Flexible Quotas

The plant directors pointed out that along with the steady improvement of the contract system, the contract and examination quotas tend to become more varied, putting greater roadblocks in the path of enterprises fulfilling their contracts. Looked at from the contents of the contracts, because the various departments of government all stress their own work and demand that relevant provisions be added to contracts, the enterprise contract quota will rise from an initial three to five items to 10 to 20-some items, so that the contract becomes an all-inclusive "hodgepodge." Looked at from the contract examination, because departments concerned with the contract all have the right of oversight and examination, each whistles its own tune. Add to this some leading departments, when leading and publicizing, now emphasize "rigidity," and now "flexibility." When stressing "rigidity," they advocate "one package is effective." If an enterprise shows rapid profit increases, then that enterprise will be favored. Departments will even show a lack of support for those contract enterprises that pay attention to long term benefits and will sacrifice their short term interests to increase their staying power. When they stress "flexibility," they advocate "one package, a hundred packages," making a great many enterprises unable to concentrate their energies on their production management responsibilities.

The plant managers know that as the contract and examination quotas become more varied, and in their publicity have to be now "rigid" and now "flexible," it reflects that in higher-level relevant departments "no one thinks about it;" namely, they give the contract enterprises no assurances, no free hand, and no powers. Concerning the work of contract enterprises, including such things as managing production and fulfilling contracts, contract enterprises should have the power of self-management according to law. At the same time, in order to safeguard the serious nature of contract law, contracts should have the "four outstandings": outstanding economic contract features, outstanding "contract regulations" which contain "two guarantees, one link," outstanding chief economic quotas which are easily determined by examination, and outstanding government departments which will, according to laws, regulations, and policies, assume the responsibility of providing enterprises with supervision and examination. Only in this way will enterprises be able to concentrate their energies, take responsibility for clearly fulfilling

their contracts, and doing well their other work. Only then will the government's rights and obligations be appropriately scaled.

#### **Pinched Between One Household, One Rate, and Unequal Allocations**

After the enterprise has contracted, concerning the rate of taxation levied on enterprises (including the adjusted tax), the state does not again make a unified formulation according to the tax law, fixing a base for profits handed up with a progressive rate of increase, or exceeding the proportion received. In this way, the rate of taxation received will actually change into "one household, one rate." Take, for example, an enterprise which consists of 10 households in a mechanical system exceeding 10 million yuan in output value, and with taxes in excess of a million yuan: before the contract it will on the average be taxed at a 55 percent rate; after the contract a different model will be formed, based on such things as a tax on profits after completion of a project, profit and loss after completion, or the profit handed in at the end of a year, etc. If the tax rate is so calculated, then it comes out to one household, one rate. The plant directors point out that this "one household, one rate" method gives the enterprises some prospects, because it can stimulate the enterprises' energy. However, the further development of the contract system, especially the progressive spread of "one household, one rate," has also provoked tendencies to competition among enterprises. Because there are dissimilar situations for each enterprise's contract base as well as for each enterprise's foundation, managerial level and external environment, there is a great variance in profits after contract fulfillment, so there will also correspondingly be a considerable variance in the allocation of benefits, which is called "unequal allocation," and moreover attributes the problem to "one household, one rate," thereby subjecting some enterprises to attack by public opinion. Low income enterprises will have greater internal pressures, with cadres and workers complaining about the high base of what they must hand up to higher authority; if they don't receive their material benefits, it is difficult to arouse their enthusiasm. Some of the enterprises will be forced by staff pressures to increase income, with unsparing force of the production development base or use of accumulation, creating a vicious circle. High income enterprises are subject to greater external pressures, and, fearing that "the gun shoots the bird through the head," they also do not expend much energy on encouraging workers to do their utmost. While "one household, one rate" did stimulate enterprises' enthusiasms initially, it is now constraining those enthusiasms in varying degrees. The plant directors hope that positive measures can be found to resolve this situation; otherwise, society's production forces will decline.

#### **Pinched Between the Burden of Workers and of Society**

The plant directors made it known that, since implementation of contracts, the pressures which come from the burdens put on enterprises have increased steadily.

Under the system currently in effect, enterprises not only bear the burden of workers' wages, awards and various allowances, they must also bear such burdens as housing subsidies, family medical expenses, retirement and old-age pensions, incentive payments for having only one child, etc. Besides these, a great many burdens come from the enterprises' missions and responsibilities to society, and all of these fall either directly or indirectly upon the enterprises. Besides a group of affordable national treasury certificates, construction bonds, etc., which make the enterprises' funds even tighter, various ways and models of raising funds, apportioning funds, assistance, contributions and loans, as well as expenses for meetings, receptions and labor matters, make the enterprises even more like an ox bearing a load. The plant directors long for the various levels of government to choose measures which will alleviate the enterprises' burdens.

#### **Effect of Behavior of Economic Entities on Inflation**

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[Text] Inflation is caused by the over-issuance of currency by the central government and reflects the many frictions and conflicts among the different interest groups at this stage of China's economic development. This sets a new task for inflation studies. We cannot just make quantitative analyses and macroeconomic policy assessments; instead, we must probe deeply into the interrelations between the behaviors of the different economic entities and economic policies, analyze thoroughly what sort of policy trigger what kind of behavior from the economic entities that can aggravate inflation, and find out what enterprises, citizens, and governments might do in an inflationary environment and what kind of policy-environment will induce the economic entities to take the initiative to regulate their own behavior so that we can bring inflation under control.

#### **I. Behavior of the Economic Entities And Inflation**

The economic entities' choice of behavior is constrained by the environment created by the macroeconomic policies. Defining the policy environment in this period of transition from one system to another is one of the basic steps to understanding the economic entities' choice of behavior.

(1) The policy environment during the transition period: The centralized economy, effected to accommodate the strategy of giving priority to the development of heavy industry (of course, the centralized economy was also the result of other factors,) had a set of policies and measures

to make it work. Basically, this set of policies was to artificially keep the interest rate, exchange rate, wages, raw and processed material prices, agricultural product prices, the price of other daily necessities, and the price of services down, and meanwhile, production, circulation, and everyday life were heavily subsidized by the government. A decade of economic reform has made possible great progress in the reform of the income distribution system, but we have not made any substantive change in the policy environment which supports the centralized economy, and therefore many conflicts have resulted, the more serious of which are:

One, citizens who have fixed budget constraints have become the main sources of investment funds. But the government is still holding on to a low interest policy. The bank deposit rate is low, and enterprise investment loan rate is equally low. This in essence is sacrificing the interests of the people to protect enterprises' low-efficiency operations.

Two, China has already implemented reforms to integrate industry and commerce, agriculture and commerce, and technology and commerce and has abolished monopoly in the foreign trade system, replacing it with a multilevel system. Yet, she is still keeping a low exchange rate policy. When power is decentralized, the low exchange rate policy only makes foreign products cheaper in the domestic market than justified by cost, and so demand increases, bringing in a flood of imported goods, which disrupts the domestic economic order. On the other hand, because state monopoly of purchase and sale of export goods has been abolished, the price of these products in the domestic market soars, and "wool war" and "silk war" breaks out one after another. As a result, it either makes the foreign trade enterprises' cost of obtaining foreign exchange much higher, or the manufacturers soon discover that selling their products in the domestic market is more profitable than abroad, and so they are reluctant to make foreign sales, and in both cases, the foreign exchange supply-demand disparity is increased.

Three, enterprises now have more redistribution power, but they are keeping wages nominally low. On the one hand, the state has been vigorously promoting monetarization of the economy, but on the other hand, more and more personal income is taking the form of in-kind payment. Maintaining a nominally low wage while paying the workers in-kind wages jeopardizes the economy in two ways. First, it increases the total production cost and gives impetus to real consumption; second, to people living on fixed income, because state monopoly of purchase and sale of some agricultural and sideline products and daily necessities has been abolished, nominally low wages necessarily lower their standard of living, which in turn makes them unhappy about the reform. The alternative calls for the government to spend heavily on subsidizing the workers. If the government cannot afford those expensive subsidies, it must slow the pace of reform, or even reestablish state

monopoly. The modified grain procurement contract system is the result of this kind of tangled interests.

Four, the state has relaxed control over the microeconomic entities, and consequently, enterprise profit is eroded by workers' income, which in turn bloats the consumption fund. On the other hand, for many key factors of production, so long as the low interest rate, low exchange rate, and low raw material price policies are being enforced, the disparity between the planned and market prices will be so great that everybody will resort to unscrupulous means to obtain parity-price goods and materials, and the provision of funds will become a low-risk, high-profit business and will also become a way for some people to get rich. These practices squander society's resources, corrupt social values, and dampen the people's enthusiasm for reform.

(2) Enterprise behavior and inflation: Enterprises are the national economy's microeconomic foundation. Their behavioral changes are often signs of macroeconomic distortions. During this transition period, because the policy environment is incompatible with enterprises' operating mechanisms, it has given rise to many conflicts. Most enterprises characteristically want to maximize profit on the one hand and want to convert as much of their profit as possible into workers' income on the other hand, relying on borrowing to develop production.

Since 1985, China has been plagued by chronic inflation. The price of means of production and the price of means of consumption have been following an upward spiral. The high price of means of production pushes up enterprise production cost, and the high price of means of subsistence pushes up enterprise labor cost by triggering enterprises' internal mechanism to increase welfare payment. Under the pressure of higher means of production prices and increased expenditure on workers' benefits, enterprises generally respond in two ways: One way is to digest and absorb them internally. For example, they may cut down on material consumption, increase production, reduce fixed expenditures, fine-process products to increase income, change the product-mix to increase revenue, and try to make comprehensive use of materials. Another way is to make external changes, such as adjust product prices, make extra-plan sales at negotiated prices, use a floating price system, and raise price on better-quality products. According to a sample survey conducted by the Shanxi branch of People's Bank, the breakdown of 69 enterprises' digestion, transfer, and tolerance (ability to digest plus ability to transfer) abilities is as follows: 86.05 million yuan are digested and absorbed and 112.53 million yuan are shifted to the consumers, totalling 198.58 million yuan; the digest-and-absorb rate (the amount digested as a percentage of the total price increase) is 52.3 percent; the transfer rate (the amount transferred as a percentage of total price increase) is 68.3 percent; the tolerance rate (the amount tolerated as a percentage of total price increase, or digest-and-absorb rate plus transfer rate) is 120.6 percent. That study shows that enterprises digest and absorb the higher cost in the following ways: Of the 86.05

million yuan digested, 20.76 million yuan, or 24.1 percent, is saved by cutting down on material consumption; 9.27 million yuan, or 10.8 percent, is cut from miscellaneous spendings; adjustment of product-mix increases earning by 42.04 million yuan, accounting for 48.9 percent; 9.65 million yuan, or 1.2 percent, is saved by increasing production and reducing fixed expenditures; other savings account for 4.33 million yuan, or five percent. If we categorize enterprises by trade, the light and cotton industries and the metallurgical industry tend to rely heavily on increasing production and adjusting the product-mix to increase income while the coal industry relies primarily on cutting back on raw material consumption and expenditure.

On the whole, for most trades and industries, while they must digest a part of the higher cost, they will make full use of various pricing methods to shift their losses to others in order to achieve their own profit goals. What is noteworthy is, out of the total price increase, enterprises' average digest-and-absorb rate is 52.3 percent and average transfer rate is 68.3 percent; the transfer rate is much higher than the digest-and-absorb rate. Because the latter is more heavily weighted in enterprises' tolerance rate, how much a specific trade or industry can tolerate is often determined by the transfer rate. For example, the chemical industry has a fairly low digest-and-absorb rate of 28.2 percent but a fairly high tolerance rate of 128.2 percent. This means when prices change, enterprises are highly motivated to shift their losses to someone else.

This strong motivation to shift the losses brings tremendous pressure to the market and hampers effort to control the magnitude of price increase. To the market and to society as a whole, the more enterprises can digest, the less the pressure on other enterprises and society; the more enterprises must shift their losses, the more pressure on other enterprises and on society. If every enterprise tries to shift their cost, in the end, it can only create an upward price spiral in the market. Unfortunately, this is exactly the situation today. In a certain sense, last year's aggravated inflation and the parity price spiral in recent years are directly related to enterprises' response to price changes.

How enterprises react to changes in fund price also affects inflation directly. Negative interest on savings and loans is the best evidence of today distorted fund price. Paying negative interest on savings deposits is in essence sacrificing the people's interests in exchange for enterprise survival. In an inflationary situation, it tends to reduce the people's marginal savings and in turn ruins the source of funds and hampers enterprise development. Low- (negative-) interest loans are the extension of the government's "paternalism" to the production sector. Because cheap funds are easily obtainable, enterprises are prone to make the following convenient choice to satisfy the welfare demands: They will rely on loans to develop production and use their own funds to remedy the erosion of wages due to higher price of consumer goods. Enterprises can afford to pay their staff and

workers consumption-type benefits only because the state is giving enterprises production-type benefits.

(3) The citizens' behavior and inflation: The theory that the citizens' behavior has an impact on macroeconomic stability was confirmed by the worsened inflation in 1988-1989. Last year, despite an excess input of cash and the fact that money in its narrow definition was not in short supply, enterprises and banks still faced a means-of-payment crisis for two reasons: One, in choosing between in-kind assets and financial assets, the people have come to shun the latter; two, in choosing between cash and other financial assets, they again have come to shun the latter. Thus, the citizens' preference for a particular form of asset, especially a particular form of financial asset, becomes the main constraining factor in currency stability and economic growth. Here, we will concentrate on the citizen's financial asset composition and analyze their consumption, investment, and savings behaviors and their relationship with inflation.

In general, besides spending their monetary income on everyday consumption and accumulation of in-kind goods and materials, the citizens usually have some sort of financial assets that bear value. If we chart the flow of the citizens' monetary income, we will observe four stages: monetary income, consumption, investment, and savings. Their relationship is represented by the following equation:

Citizens' monetary income (+ or - transferred income and expenditure) - consumption - investment = financial asset

The above equation shows that the size of a citizen's financial asset is determined by his income, consumption, and investment. Personal monetary income as a percentage of national income has risen from 41.7 percent in 1978 to 75 percent in 1987, an increase of 33.3 percentage points. Personal monetary income has been increasing faster than the GNP and the national income. Relatively speaking, the increase in consumption has lagged behind the increase in GNP for most years. These changes enable the citizens' financial assets to grow at a high rate of than 30 percent a year with the exception of a few years. Thus, we can expect the citizens' financial assets to be sizeable. By the end of 1988, total civilian financial assets have topped 610.6 billion yuan, of which, 391.9 billion yuan are in the form of savings, 173.7 billion yuan are cash on hand, 48.6 billion yuan are negotiable securities, and 5.46 billion yuan are in insurance.

In recent years, as reforms become more thorough and the market begins to develop, the civilian financial asset composition has changed dramatically and has become more stable. But, as a whole, the existing financial asset composition has many defects which became very apparent in the volatile market and the unstable savings deposits in 1988. These defects can be summed up as the following:

The civilian financial asset portfolio lacks diversity. At present, a large percentage of the assets are in the form of bank deposit and cash holding; the percentage of direct investment is very small. In the last two years, China's civilian financial assets have been increasing at a rate of an additional 30 billion yuan a year, of which, negotiable securities have been increasing at a rate of an additional 3 billion yuan a year, accounting for 10 percent. In 1987, civilian financial assets increased by 116.8 billion yuan and negotiable securities increased by 12.6 billion yuan, accounting for 10 percent. In 1988, civilian financial assets increased by 144.9 billion yuan and negotiable securities increased by 12.6 billion yuan, accounting for 8.7 percent, a drop of 1.3 percentage points compared to the previous year. By the end of 1988, out of a stock of 610.5 billion yuan of civilian financial assets, only 7.9 percent were negotiable securities. Compared to the United States and Japan, China's civilian financial asset composition is unique in the fact that the percentage of financial assets spent on production accumulation, housing, retirement, children's education, and other long-term consumption is small while the percentage spent on the purchase of daily necessities, durable consumer goods, and children's marriage is fairly substantial—the last three items take up as much as 76.4 percent of the savings. Moreover, the percentage of cash on hand here is 1.5 times higher than in Japan and 4.5 percent than in the United States. China's civilian financial asset composition is typical of a near-term-consumption-oriented structure. It has many adverse effects on the stability of the country's macroeconomic development:

1) It promotes a high rate of increase in the production of consumer goods. According to a study by Dalian's People's Bank on how the citizens intend to spend their savings, 36.8 percent of the money are earmarked for the purchase of luxury durable consumer goods. At the end of 1988, the people had 381.9 billion yuan in savings deposits nationwide, and together with the 170 billion yuan of cash on hand, they had 551.9 billion yuan. Even at 30 percent, it means approximately 165.6 billion yuan are earmarked for luxury consumer goods. It is because of this tremendous consumption demand and the temptation of the huge market that industrial production has sustained an accelerated growth rate of around 17 percent since 1984. If we fail to modify this near-term-consumption-oriented savings structure, and if we fail to correct the people's savings tendency, we will not be able to cool the present overheated production and correct the structural distortion.

2) The government must budget more and more subsidies each year. As a result of the huge consumption demand, too much money is now chasing after too few goods, which generates much pressure on the market. To keep prices from soaring, the government is forced to budget more and more subsidies each year, piling up even more government deficits.

3) Inflation makes it more difficult for the central bank to stabilize the currency. Last year, aggravated inflation led to a decline in bank deposits and a steep increase in

cash holdings. This year, whether the currency can be successfully stabilized will be decided by whether the near-term-consumption-oriented civilian financial asset structure can be readjusted.

4) the government's economic behavior and inflation: Since the central and local governments began "eating from separate pots" financially, local interests have been boosted. Local governments begin to consider how to enliven the economy, increase government revenue, increase employment, improve the environment, beautify the surrounding, and assess their political accomplishments and so on, and they have gained a strong desire to expand the scope of investments. They do not hesitate to make use of their administrative power and their local economic strength to satisfy this desire. Specifically, one, they have adopted policies that promote local economic development; they believe in "storing wealth among the people" before taking from them, and they subscribe to the idea of "a city of the people, built by the people." Two, they use their administrative power to interfere with the banks' credit activities, forcing them to provide loan funds for local extra-plan projects. In addition, they have set up many "fishing" projects—they invest their own money in popular projects and leave the infrastructure to the central government, "hooking" central government investments, which are their "big fish." The surge of local industries, especially the processing industry, caused by the local governments' desire to increase revenues, is the inherent cause of expanded total social demand, which in turn leads to inflation.

As a whole, China's economy is characterized by scarcity of resources and excess processing capacity. Regionally, the northeast and the northwest have relatively little capacity for producing consumer goods; the northwest's production structure is resource-oriented while the northeast is heavy-industry oriented. The east and the southeast lean heavily toward the processing industry. During the transition from the old system to the new, every region is turning its economic advantages, especially the advantage in natural resources, into administrative privileges and are engaging in regional monopoly and unfair competition. Out of their own regional interests, local governments inevitably hope to bring more scarce commodities into, and ship less of their own scarce commodities out of, the local market. However, the actual flow of commodities is not decided by the local governments. Behind the interregional circulation of commodities is the issue of interest distribution among regions, and commodity prices reflect how the regional interests are distributed. Price difference is the main factor that determines the flow of commodities. Thus, under a poor pricing system, regions producing cheap commodities are always trying their best to raise the price of local commodities, and since the state has explicit orders forbidding them to raise prices, they often put up blockades to stop the drain of local products. In general, basic products, raw and processed materials, and agricultural products are low-priced products, and blockades are often put up by regions producing them.

Regional double pricing, that is, the same product is bought and sold at a much lower prices locally than outside the region, is a modified form of blockade.

The central government is responsible for formulating major economic policies. Regrettably, in recent years, the central government's choice of policies has been influenced by the economic guiding ideology of quick success and instant profit, and the result has been financial red ink, credit deficits, and soaring fixed asset investments. At the end, the state is forced to loosen its monetary policy. The following are the biggest decision mistakes made by the central government in recent years:

First, the government still lets the guiding ideology of quick success and instant profit influence its choice between development and stability. Economic development in fact has become the number one goal in every decision and stability is still a secondary consideration. As a result, the periods of expansion are often marked by deficits, soaring investments, serious credit imbalance, and bloated total demand, and during the adjustment periods, often we see "tightening but no contraction" and "easing even before the economy contracts."

Second, the state has long neglected the question of adjusting the economic structure and has not done anything in terms of policy and measure to facilitate the optimization of the economic structure, thus rendering the goals of the five-year plan meaningless. As a result, some important relationships are being neglected. For example, nothing has been done about the energy problem and the backward communications system.

Third, the monetary policy that is too loose is key to the growing inflation, and the only monetary policy we have been relying on to control inflation is being challenged. During the period of tight money policy, the scope of capital constructions refuses to narrow and income continue to rise. They offset any increase in production and effective supply, often forcing the tight money policy to be abandoned halfway. This situation clearly demonstrates that we must find other ways to accommodate the implementation of an effective monetary policy.

\*\*\*Four, the fatal spot of the guiding ideology of quick success and instant profit is the ignorance of short-term development. Economics deals with abundance and scarcity. When the central government draws up the economic development plans, whether it aims to deal with the abundance or the shortages will determine whether the economy will "overheat" or develop evenly. The economic fluctuations and the growing inflation in recent years should rudely wake us to the fact that economic development is constrained by our tolerance for shortages. To speed up economic development, we must first find out if we can be more tolerant and if we can increase those trades and industries that address the shortages.

The above analysis demonstrates that the behavior of the economic entities has much to do with inflation. Enterprises' impulse to shift their burden to someone else and the impulse to increase their workers' in-kind benefits are the main factors leading to higher total cost of social production and prices, which in turn are responsible for forcing enterprises to shift their burden and increase the workers' income. The citizens' near-term-consumption-oriented savings structure and the accompanying consumption and savings patterns in recent years are among the main causes of macroeconomic instability and inflation. Meanwhile, growing inflation and the anticipation of more inflation also prompt the citizens, when choosing among in-kind assets, financial assets, cash, and long-term savings, to shun the last item, causing more inflation. Through pricing, taxation, and cost control and other means, local governments intercept revenues that should go to the central government and spend the money on the processing industry, building public halls, buildings, monuments, and other nonproductive projects, the resulting in more market demand and more inflation. At the same time, it is an established interest distribution pattern that whoever raises prices first reaps the profit, and whoever is slow to raise prices loses out, and so local governments compete with one another to raise prices—"hundreds respond to a single call (to raise prices)." The central government's economic guiding ideology of quick success and instant profit that ignores short-term development of shortages provides the policy environment for the other economic entities to exercise their expansionary impulse. Meanwhile, since much of its revenue has been intercepted, and in order to fulfill its own mission to protect the basic industries, the central government is forced to print more money to finance its deficit spending, giving impetus to more inflation. Thus, the economic entities' behavior and inflation form a closed cycle. To end this cycle, we must first analyze the driving mechanism, or the power structure, that determines the different economic entities' choices of behavior.

## II. The Economic Entities' Behavioral Preferences and the Peculiar Driving Mechanism

The economic entities' behavioral preferences are determined by the policy environment and even more by the economic system's driving mechanism, or power structure.

1) Enterprises' power structure under the dual-track system: While it reduces the state's control over enterprises and gives the workers a bigger role in enterprises, the decentralization of the economic system also links the workers' personal income (primarily bonuses and various in-kind benefits) to enterprises' real profit as determined by the market. In order to increase the workers' personal income, enterprises will accelerate the rate of increase in output value and will go for external-type expanded reproduction. With the existing industrial structure and system, acceleration will inevitably widen the supply-demand gap and increase the workers' share of income dramatically, and they in turn will put even

more pressure on the commodities market. If the workers' soaring income is due entirely, or mostly, to higher labor productivity, then it will not widen the supply-demand gap. But in reality this is not so. From 1979 to 1987, net industrial output value increased at an average rate of an additional 8.2 percent a year, monetary wages increased an additional 12.2 percent a year, insurance and welfare expenses increased an additional 18.4 percent a year, but industrial labor productivity only rose an additional 5.3 percent a year.

Under the policy environment of the dual-track system, so long as enterprises take maximizing the workers' income as their highest goal, they will always try to increase their own workers' income and in-kind benefits. This not only will increase total demand but also total cost and will push product prices up.

If we look at this from a different angle, inflation also prompts enterprises to raise prices as a way to protect their own interests. Growing inflation under the dual-track system in effect has created the following income distribution pattern: "Whoever raises prices first reaps the profits, and whoever fails to raise prices will incur economic losses. The benefits of raising prices far exceed the benefits of any innovative efforts to improve management."<sup>1</sup> With this interest pattern, enterprises are swept up in a competition to go after nonproduction type profits. Given the dual-track pricing system for capital goods, the actual price enterprises pay for their capital goods will fall somewhere in the wide span between the "planned price" and the "market price." Whether the price paid by a specific enterprise is closer to the planned price or to the market price depends entirely on how "competitive" that enterprise is. Such "competitiveness" is hinged upon three factors: one, how much scarce goods and materials that enterprise monopolizes; two, how close that enterprise is to the government and to the people who have real power; three, how often does the present economic policy "play touch ball" with that particular enterprise. Of these three factors, the second one—how close that enterprise is to the government and to the people who have real power—is the most fundamental. It is exactly the activities of different enterprises, or different interest groups, to go after nonproduction type profits and carve up the benefits of inflation that have given impetus to more inflation.

2) The power structure behind the citizens' choice of behavior: The Chinese citizens' near-term-consumption-oriented savings structure is not conducive to stabilizing the currency. In an inflationary environment, this structure is especially fragile and becomes the main obstacle to controlling inflation. To study the power structure behind the citizens' choice of behavior is to find out what gave rise this near-term-consumption-oriented savings structure.

First, the welfare system in China's enterprises has inseverable ties with the formation of the near-term-consumption-oriented financial asset structure. It

gives impetus to the formation of that structure in two ways: (1) It limits the scope of consumption of the citizens' disposable income to everyday needs and entertainment and other near-term consumption items. Enterprises take care of housing, medicare, and social security and other items that require long-term savings, and this smothers the people's incentive to put aside long-term savings. (2) Specific subsidies and in-kind allocations in reality connote compulsory consumption and produce the effect of highly concentrated consumption.

Second, the underdeveloped financial markets and the lack of financial tools limit the citizens' choices. The financial institutions are highly centralized. Bank savings deposits make up 90 percent of the total civilian savings. In addition, the rigid interest rate mechanism and the ambitious interest rate policy also prompt the citizens, when choosing between in-kind assets and financial assets, to shun the latter.

Furthermore, we must not overlook the effect of traditional social psychology on the formation of the near-term-consumption-oriented financial asset structure. The Chinese nation is more tolerant of poverty than of inequality. The traditional psychological process of equalization has an impact on every aspect of our socioeconomic lives. Overall, the Chinese citizens' income is quite evenly distributed, giving rise to a fairly centralized (or identical) consumption pattern, which makes it difficult to raise society's savings level.

In short, China's welfare system interacts with the financial mechanism to create a peculiar power structure that prompts the citizens to choose the near-term-consumption-oriented form of savings, which is an obstacle to efforts to stabilize the currency.

3) The government's power structure and behavioral preference: The government's impulse to invest and to raise prices is an important factor behind inflation. The central government has always had this investment impulse. The political thrust behind this urge to increase investments is stronger than the economic thrust. The strategy of catching up with and surpassing the United States and Great Britain, formulated in the early days after the founding of the PRC, continues to influence the central government decisionmakers' policy preference. Because of China's ineffective economic system, investments must settle for expanded reproduction of mainly the external type. Under China's existing structure, an investment may be intended for increasing supply, but in reality it often ends up widening the supply-demand gap and brings out the local governments' expansionary behavior even more; and to a large extent, this is the natural outcome of the existing budget management system. The financial contract system defines and sets the local governments' diverse interests, prompting them to maximize local financial revenue, which in turn produces the internal drive and the external pressure that compel them to race to increase investment and consumption (construct non-productive type halls and

buildings and improve local residents' welfare.) As they increase society's total demand, they also increase the cost of macroeconomic controls, that is, they make it even more difficult for the central government to curb inflation. Specifically, the problems include: One, it makes controlling the rate of growth at the macroeconomic level ineffective. The localities generally strive to protect the growth of local industries and often tangle with the central government. Two, it is often difficult to check society's growing demand. Efforts to reduce consumption demand are often met with resistance from the local governments which insist on giving the local residents more and more economic benefits. Efforts to reduce investment demand also only mean cutting the central government's projects in the localities, bona fide local projects, although too many, are untouchable. Three, efforts to increase effective supply and adjust the industrial structure while reducing demand are often confined to specific localities; local "superiority" is always protected in every way. Four, local governments always clamp down on attempts to control the money supply. Thus, any policy to stabilize the economy implemented under this abnormal financial system will have very limited room to manipulate and will have little economic effect.

A decade of reform has defined and boosted the respective interests of enterprises, citizens, and local governments, but the policies of low basic product prices, low deposit and loan interest rates, low foreign exchange rate, and low nominal wages remain unchanged. The impulse of every economic entity to pursue its own interests collides with the macroeconomic policies, and the distorted policy environment acts upon this impulse and turns enterprises out to pursue nonproduction type profits and ignore production efficiency, thus widening the supply-demand gap and fan more inflation.

#### Footnote

1. Du Haiyan [2629 3189 3601] et al. "How State-Owned Enterprises Behave During Inflation," *JINGJI YANJIU* [ECONOMIC STUDIES] Vol 2, 1989

#### Policies for Continued Economic Readjustment Proposed

90OH0255A Beijing *JINGJI CANKAO* [ECONOMIC INFORMATION] in Chinese 11 Dec 89 p 4

[Article by Wei Jie (7614 2638) and Zhang Yu (1728 1342), Economic Research Institute, Chinese People's University. "Various Problems With the Present Economic Situation and Policies"]

[Text]

- **China's Economy Continues To Be Characterized Primarily by a 'Sellers' Market'**
- **A Policy of Moderate Tightening of the Macroeconomy Should Be Pursued**
- **Readjustment of the Price Structure Is an Important Aspect of the Deepening of Reform**

#### I. Has a "Buyers' Market" Already Appeared Today?

After more than a year of improving the economic environment and restructuring the economic order, extremely marked changes have occurred in China's macroeconomic situation and price situation. The main features of these changes are as follows: (1) The domestic market has gone from hot to cold, with a continued softening in retail sales of durable consumer goods and some means of production; (2) a tremendous increase has occurred in the removal of currency from circulation, cash recovered from circulation during the first half of the year totaling 5.3 billion yuan; (3) the market retail price index is stable with slight decline, showing a month-by-month drop making it markedly lower than during the same period in 1988; (4) a decline in total demand has occurred, with a marked reduction in market demand; and (5) the speed of economic growth has slowed, the speed of increase in production declining substantially.

These changes in the present national economy pose numerous new problems in the choice of macroeconomic policies and price policies such as: the problem of how to evaluate the effectiveness of improving the economic environment and restructuring the economic order of the past year; whether the present decline in the speed of economic growth will lead to economic stagnation; and how to master the dynamics of further tightening, etc. All of these problems are part and parcel of an accurate estimate of the current market pattern, namely whether the country's current market situation has completely entered a "buyers' market." We have to analyze this problem carefully.

It should be said that the policies for improving the economic environment and restructuring the economic order, and restraining demand have really produced a "buyers' market" for some products. This is specifically manifested in supply exceeding demand, a decline in prices, intense competition, and a heightened trend toward greater attention to the market in the behavior of enterprises. In an overall sense, however, China's present economy is by no means a "buyers' market" economy; it still contains the features of a "sellers' market" to a very great extent.

First of all, many of the country's important basic products such as energy, raw and processed materials, grain, cotton, and edible oil, as well as numerous means of production remain in rather short supply. They must be supplied in fixed amounts, in limited amounts, and in rationed amounts. Although sales of some products are slack, the existence at the same time of both shortage and slack sales simply reflects the serious structural conflicts existing in the country's economic life, and by no means demonstrates that China has become a "buyers' market." In fact, the coexistence of shortages with slack sales is an outgrowth and a characteristic of the "sellers' market."

Second, the concept of a "buyer's market" reflects, in a fundamental sense, not short-term market fluctuations, but rather the basic way in which the national economy operates, and the basic state of total supply and total demand; consequently, one cannot conclude, on the basis of short-term supply being greater than demand for certain products in the country's markets, that the country has changed from a "sellers' market" to a "buyers' market." A "buyers' market," in the full sense, requires as a prerequisite both hard budget restraints and full market competition, and these prerequisites are obviously far from existing in China.

Finally, China is currently in a process in which a new system is superseding the old system during which the supply and demand for different products of different enterprises is reflected differently in markets; consequently, for some products, buyers hold the upper hand. However, for most products, it is the seller who still holds a dominant position. Therefore, a concrete analysis has to be made of the current complex market situation. One cannot suppose on the basis of the slack sales of individual products that a "buyers' market" has taken shape. One has to realize that the oversupply of money, the excessive total demand, and the serious inflation are the accumulation of many years, and that they are very much related to deep down problems such as the short-term outlook of enterprises, and the imbalance in the economic structure. Thus changes will be difficult within a short period of time.

In summary, thanks to the policies for improving the economic environment and restructuring the economic order, and for economic retrenchment, and thanks to economic system reforms, the reliance on markets of the country's enterprises, particularly enterprises producing consumers goods, has become increasingly strong. As a result, despite the soft market situation, some of the features of a "buyers' market" have appeared for some products and the production of some enterprises; however, in an overall sense, the country's economy is characterized primarily by a "sellers' market." Therefore, further readjustment of the economic environment and deepening of reform must be done to spur the formation of a "buyers" market. Improvement of economic returns, and accelerated development of production cannot be abandoned in mid-course.

## 2. What Sort of Tightening Policy Should Be Pursued?

Improving the economic environment and restructuring the economic order should gradually bring the inflation rate down below 10 percent for an easing of the serious structural contradictions. What sort of tightening policy should we pursue to achieve this goal? Generally speaking, inasmuch as production capacity is fixed over the short-term, and inasmuch as output and price levels in the national economy are determined by total demand over the short-term, realizing the goals of stabilizing prices and holding down inflation will require a suitable tightening of the money supply, a decrease in the speed of economic development, and reduced increase in wage

and consumption demand for an ultimate decline in total demand. The more the decline in total demand, the greater the drop in prices; the less the decline in total demand, the smaller the decline in prices. Of course, one cannot be categorical about such a tendency. Under some circumstances, although a transitional tightening can lower the speed of economic development, it will not necessarily lower demand, but may lead instead to a tremendous rise in prices. Therefore, selection of the proper tightening policy plays a key role in the development of the nation's economy.

Under the country's present circumstances, a strict tightening policy can bring about an enormous decline in production, a tremendous decrease in government revenues and wage income, a very great increase in the number of people looking for employment, and greater ossification of the economic structure. For a country such as ours in which wages, government finance, and the production structure are fairly rigid, this can produce numerous harmful and negative consequences. Specifically, it can give rise to a greater "resilience" in prices and more serious inflation. On the other hand, a light tightening policy will also be ineffective against serious inflation; it will be neither able to generate rather strong restraint, nor will it help the normal operation of the economy. Therefore, in order to achieve a lowering of the inflation rate without inordinately damaging economic growth, we should pursue a moderate tightening policy.

The policy of improving the economic environment and restructuring the economic order that has been pursued since September 1988 has scored marked results by now; however, the problem of excessive total demand has yet to be solved fundamentally. The January through September price index was 22.3 percent, still a rather high figure. At the same time, the speed of industrial growth for the period January through September was maintained at 8.9 percent, a level that cannot be considered low. Therefore, from an overall standpoint, the goals of improving the economic environment and restructuring the economic order are still a long way from fulfillment. The present orientation of tightening policies is basically right, and it should continue to be maintained. However, one has to realize that in their implementation, the present tightening policies encounter numerous difficulties and problems requiring our diligent solution.

The problems faced now are, first, too great a decline in recent months in the speed of industrial growth and government revenues. During the first half of 1989, the speed of industrial growth averaged more than 10 percent, but it fell continuously during July, August, and September, falling to 0.9 percent in September. It showed a negative growth in October, and it is still declining.

Second, as result of the shortage of capital, soft markets, and a rise in prices of raw materials, enterprises' profits have declined, their losses have increased, and returns

have dropped. From January through September, industrial enterprises within budget produced profits and taxes 1.8 percent less than during the same period in 1988; their losses increased 1.2-fold; and comparable product costs were 20.1 percent higher.

Finally, the various subsidies paid in order to keep prices stable increased enormously, and it will be difficult to maintain them further. Although the foregoing problems are definitely related to the panic buying of 1988 and the present further slide in consumer prices, most have been determined by the macroeconomic structure and policies. Consequently, the main ingredients in proper adjustments to prevailing economic policies should be as follows: (1) Continued maintenance of the policy of overall tightening, controlling increase in both consumption and investment to bring about basic price stability. (2) Greater readjustment of the economic structure starting with planning, investment, credit, prices, and tax revenues, solving imbalance in the industrial structure, and increasing effective supply. Credit policies should be relaxed or tightened, or alternately relaxed and tightened as industrial policy requires to insure the output of key sectors, and to prevent an economic slide. (3) Deepening of economic system reform, including reform of the planning, price, enterprise, and government financial systems to improve economic returns, and to lower cost outlays.

### 3. How To Deepen Reform Further During Improvement of the Economic Environment and Restructuring of the Economic Order

The present improvement of the economic environment and restructuring of the economic order is being conducted in the midst of reform and opening to the outside world, and the replacement of the old system by the new. Sustained stable development of the economy requires that improvement of the economic environment and restructuring of the economic order be done in concert with the deepening of reform; otherwise stable development of the economy will be adversely affected. Therefore, how further to deepen reform is a major problem that we must consider carefully. We believe that during the present improvement of the economic environment and restructuring of the economic order, readjustment of the price structure should be the major emphasis in the deepening of reform. This is for the following reasons:

First, readjustment of the price structure is an effective way in which to readjust the industrial structure. The structural imbalance caused by agriculture, energy, communications and transportation, and raw and processed materials industries lagging seriously today, while processing industries develop too rapidly poses a serious obstacle to economic development. A situation has been reached in which readjustments have to be made. One of the basic reasons for the imbalance in the industrial structure is the seriously distorted price structure in which prices in basic industries are much too low. Much too low basic prices both inhibit the normal development of basic industries, and also stimulate the headlong

development of processing industries, thereby giving rise to serious structural contradictions. Consequently, the readjustment of the irrational price system is an effective way in which to readjust the structure of industry.

Second, readjustment of the price structure is an important way in which to bring inflation under control. China's current inflation is not only an aggregate problem, but also a structural problem. The imbalance in the industrial structure that stems from the distortion of the price structure is a basic reason for the inflation that is attributable to the structure. Although readjustment of the price structure lead to a certain amount of price rises in the short run, it will also help restrain inflation at its source and bring out price stability.

Finally, readjustment of the irrational price structure will play an extremely active role in solving the frictions in the dual track price system, chaos in the pricing system, and various speculative situations that exist today in the commodity circulation field.

Not only is it extremely necessary to carry out readjustment of the price structure during the period of improving the economic environment and restructuring the economic order, but it also holds numerous helpful and feasible factors. Readjustment of the price structure requires a fairly loose economic environment, and such a loose environment is the inevitable result of the policy of improving the economic environment and restructuring the economic order. The softness of the consumer market, the drop in prices, and the intense competition that has occurred since the last half of 1989 attest this point. This all shows that conducting a readjustment of the price structure during the period of improving the economic environment and restructuring the economic order is an issue that must be studied and solved. This organically links the improvement of the economic environment and the restructuring of the economic order with the deepening of reform.

### Rectification, Retrenchment Policies Examined

90OH0242A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 11 Dec 89 p 4

[By Wei Jie (7614 2638) and Zhang Zi (1728 1316) of Chinese People's University Economics Research Institute]

#### [Text] I. Do We Now Have a "Buyer's Market?"

Having undergone more than a year of improving the economic environment and rectifying the economic order, China has seen marked changes in its macroeconomy and its price situation. The main characteristics of these changes are: (1) The overheated domestic market has tended to cool down. Sales of durable consumer goods and some capital goods have steadily weakened. (2) The return of currency has greatly increased. The net cash return for the first half of 1989 came to 5.3 billion yuan. (3) The retail price index of commodities has been stable with a slight decline. Month by month it

has been dropping back, and it is now obviously lower than it was during the same period in 1988. (4) There has been somewhat of a decline in overall demand. Market demand has obviously lessened. (5) The economic growth rate has slowed, and the production growth rate has slipped considerably.

These changes that have occurred in the national economy present a number of new questions in deciding on macroeconomic policies and pricing policies. For example, how should we evaluate the results of improvement and rectification for the past year? Will the present decline in the economic growth rate lead to economic stagnation? How should we handle the dynamics of further retrenchment? All of these questions are tied to a correct appraisal of the current market patterns, namely, is China now totally entering a "buyer's market" situation? This question demands our serious analysis.

It should be said that the economic policies of improvement and rectification and the requirement for retrenchment have indeed created the characteristics of a "buyer's market" for certain products. Specifically, supply has exceeded demand, prices have dropped back, competition has intensified, and the trend of business activity becoming more market oriented has gotten stronger. However, from an overall standpoint, China's present economy is not a "buyer's market." It still, to a large extent, has the general characteristics of a "seller's market."

First, in China now a great many important basic products, such as energy, raw and processed materials, grain, cotton, petroleum, and a great many capital goods are still in relatively short supply and amounts must be rationed, limited, or supplied on the basis of tickets. Even though there are goods that sell slowly, they exist side by side with goods in short supply. This precisely reflects the serious structural contradictions in our economy and shows that China has not yet achieved a "buyer's market." In fact, the contradiction of short supply and sluggish sales existing simultaneously is the result and a feature of a "seller's market."

Second, fundamentally, the concept of a "buyer's market" is not reflected in short-term market fluctuations, but rather in how the national economy operates and the basic situation with respect to overall supply and demand. Therefore, we cannot say that China has gone from a "seller's market" to a "buyer's market" just because the supply of some products exceeds demand for a short period of time. In the true sense of the term, a "buyer's market" presupposes hard budgetary restraints and market competition. It is obvious that China is far from having met these conditions.

Third, China is now in the midst of replacing the old structure with a new one. The supply and demand situations of different enterprises and different products have differing effects on the market. For some products the buyer has the advantage. However, most products are still the monopoly of the seller. We thus have to make

a specific analysis of the current complicated market situation. We cannot say that we have formed a "buyer's market" simply because the sales of individual products have been weak. We have to realize that the problems of currency oversupply, excessive overall demand, and severe inflation have been piling up for years and that the deeply layered problems of business activities being put on a short-term basis and imbalances in the economic structure have a large effect. For these reasons, it is difficult to make changes in a short time.

Fourth, the macroeconomic policies of improvement, rectification, and economic retrenchment and, since reform of the economic structure, the ever increasing dependence on the market by certain enterprises, especially those producing consumer goods, have, in weak market conditions, produced certain characteristics of a "buyer's market" for some products and some enterprises. However, from an overall point of view, the main features of China's economy are still those of a "seller's market." For these reasons, we must promote the formation of a "buyer's market" by gradually improving the economic environment and intensifying reform, raise economic efficiency, promote the growth of production, and never give up with the job only half done.

## II. What Kind of Retrenchment Policy Should We Have?

Improvement and rectification is intended to gradually lower the rate of inflation to 10 percent or less and alleviate serious structural contradictions. If we are to achieve this objective, what kind of retrenchment policy should we implement? Generally speaking, production capacity in the short term is fixed and output of the national economy and price levels in the short term are determined by the level of overall demand. Given this, we must, if we are to achieve stable prices and control inflation, tighten the currency supply appropriately, lower the economic growth rate, reduce wages and the increase in consumer demand, and finally cause overall demand to drop. The more overall demand drops, the greater will be the decline in price levels. The less overall demand drops, the smaller will be the decline in price levels. Of course, we cannot be absolutely sure about this tendency. Under certain circumstances, too much retrenchment, although it might lower the economic growth rate, will not necessarily lower the level of demand. On the contrary, it can lead to large price increases. It is for this reason that choosing an appropriate retrenchment policy for developing China's economy is of crucial importance.

Judging from China's current situation, a policy of severe retrenchment will cause a big decline in production, a big decline in state revenues and incomes from wages, a big increase in the number of people waiting for employment, and an even more ossified economic structure. In a rather largely rigid country, it will produce a great many harmful and negative consequences for our wage structure, financial structure, and production structure. Especially as far as prices are concerned, it could

"backfire" in a big way and cause inflation to become even worse. However, a policy of light retrenchment is not likely to be effective for severe inflation. It could not produce strong restraints, and at the same time, it would damage the regular operation of the economy. Thus, if we are to lower the rate of inflation without causing excessive damage to economic growth, we have to institute a policy of medium retrenchment.

From September 1988 when the policy of improvement and rectification was instituted until the present, we have achieved some obvious results. However, the problem of excessive overall demand has yet to be basically resolved. From January to September, the price index was at 22.3 percent, still relatively high. At the same time, the rate of industrial growth from January to September held at 8.9 percent, not a low level. Thus, from an overall point of view, the task of improvement and rectification is far from completed. The direction of the present retrenchment policy is basically right and should be further adhered to. However, we have to realize that a number of difficulties and problems have been encountered in putting the present policy of retrenchment into effect. These will require our conscientious efforts to resolve.

The first problem facing us now is the too rapid decline in the past few months of the industrial growth rate and state revenues. The average growth rate of industrial production for the first half of 1989 was more than 10 percent. It declined during the 3 months of July, August, and September. And in October it registered a negative growth. It is still declining.

Second, the short supply of funds, market weakness, and rise in the prices of raw materials have caused enterprise profits to drop, losses to increase, and efficiency to decline. From January to September, profit taxes realized from industrial enterprises within the budget dropped 1.8 percent compared with the same period in 1988. There was a 1.2-fold increase in losses, and the cost of comparable products was 20.1 percent higher.

Third, it is becoming progressively difficult to maintain price stability and to pay for large increases in various subsidies. Although the problems described above are definitely linked to last year's surge of panic buying and current consumer anticipation that prices will gradually drop, they are linked even more to the macroeconomic structure and policy decisions. We must therefore make appropriate readjustments in economic policy. These are mainly as follows:

1) Continue to adhere to the policy of aggregate retrenchment, control the increases in consumption and investment, and achieve basic price stability. 2) Strengthen the readjustment of the economic structure, resolve imbalances in the industrial structure, starting with the various aspects of planning, investment, credit, prices, and tax revenue, and increase effective supply. To meet the demands of industrial policy, credit must be both relaxed and tightened. It has to be flexible to guarantee the

production of key departments and prevent an economic disaster. 3) Intensify economic structural reform to include structural reform of planning, pricing, enterprises, and finance, to raise economic efficiency and lower costs and lessen waste.

### III. How Should We Intensify Reform During Improvement and Rectification?

The current improvement and rectification is being carried out simultaneously with reform and opening to the outside and while the old structure is being replaced by a new one. If we are to achieve continued stable development of the economy, improvement and rectification will have to be combined with intensified reform. Otherwise, the economy's stable development will be affected. Therefore, how we are to further intensify reform is an important task requiring our conscientious consideration. We feel that, during the current improvement and rectification, readjustment of the pricing structure is a major aspect of further intensifying reform. This is because:

First, readjusting the pricing structure is an effective means of readjusting the industrial structure. At present, agriculture, energy, communications and transport, and the raw and processed materials industry are seriously lagging behind, and the excessive growth in the manufacturing industry has caused structural imbalances. These have formed serious obstacles to economic development, to the point where readjustments are absolutely necessary. The fundamental reason for structural imbalances in industry is the serious distortion in the pricing structure and the tendency for basic industrial prices to be much too low. This tendency, on the one hand, controls the normal development of basic industry and, on the other hand, stimulates the indiscriminate development of the manufacturing industry, thus forming serious structural contradictions. Thus, readjusting the illogical pricing system is an effective means of readjusting industrial structure.

Second, readjustment of the pricing structure is an important measure for controlling inflation. China's present inflation is not only an overall problem, it is also a structural problem. A basic reason for structural inflation is the industrial imbalances brought about by distortions in the pricing structure. Although in the short term readjusting the pricing structure can cause prices to rise to a certain extent, it facilitates the fundamental control of inflation and effects price stability.

Third, readjusting the pricing structure is an important aspect of intensifying reform. A socialist economy is a planned commodity economy, and a sensible pricing system is essential to an efficiently operating commodity economy. Serious distortions in the pricing system destroy the normal functioning of competition and the relationships of equal exchange, lead to false price signals and imbalances in the disposition of resources, and hinder the full play of the market mechanism. This is

why readjusting the pricing structure has an important significance for intensifying economic structural reform.

Fourth, readjusting the illogical pricing structure will have a positive impact on resolving the current friction between the circulation sector and dual-track pricing, the chaotic order of prices, and the various types of speculation and profiteering that are occurring.

Readjusting the pricing structure during improvement and rectification not only is necessary, it also presents a number of advantages and possibilities. Readjusting the pricing structure requires a relatively relaxed economic environment, and this type of environment is the inevitable outcome of improvement and rectification. The weaker consumer market, the drop in prices, and the intensification of competition that have occurred in the last half of 1989 prove this point. This all demonstrates that readjusting the pricing structure during improvement and rectification is an issue that must be studied and resolved. This could enable improvement and rectification to be integrated and combined with intensification of reform.

## PROVINCIAL

### Provincial Township Enterprises Work Conference Ends

SK2512075789 Jinan Shandong Provincial Service in Mandarin 2300 GMT 24 Dec 89

[Text] The provincial township enterprises work conference ended in Dezhou a few days ago. Participants said that next year, in the development of the province's township enterprises, we should base ourselves on Shandong's reality, focus the work on readjustment, strengthen management, promote scientific and technological progress, and raise the quality and economic results of enterprises. The conference pointed out: During the January-October period of this year, in the course of improvement and rectification, the increase in the output value of township enterprises throughout the province dropped by 26.7 percent from the same period of last year [as heard]. Nine enterprises were named as second-grade enterprises by the state; 388 enterprises named provincial-level or prefectural-level advanced enterprises; 704 enterprises received certificates proving that they are up to standards; and 180 products were named outstanding products of the state, departments, or the province, ranking first in the country among all other similar products.

The conference stressed: The year 1990 is crucial for improvement and rectification. All localities should proceed from the reality, further readjust production set-up and product mix, and resolutely develop some enterprises or order some to close down, suspend production or amalgamate with other enterprises or switch to the manufacture of other products in line with the industrial policy. It is necessary to formulate measures for saving energy and reducing consumption, resolutely prevent

enterprises from causing environmental pollution, stress operation in line with the law, deal blows to tax evasion and bribery, strengthen education on professional ethics and building systems, close loopholes in operation and management, establish and improve the funding and material management system as well as the regular examination system, and institutionalize and standardize the systems of township enterprise. It is necessary to improve township enterprises' backward technology, equipment and production conditions. In addition, we should strengthen the basic management of township enterprises in an effort to comprehensively raise enterprise quality.

### Shanghai Economic Development Outlined for 1990

OW2912214089 Beijing XINHUA in English  
1528 GMT 29 Dec 89

[Text] Shanghai, December 29 (XINHUA)—Shanghai, China's largest industrial center, will pursue a policy of "readjustment, rectification, improved management and reform" in its economic development next year.

The city's industrial growth rate in 1990 will be kept at four percent, the same percentage as that of this year. Vice-Mayor Huang Ju said at a recent meeting on the city's overall economic development for 1990.

The key to achieving the goal is to readjust the industrial structure, he stressed.

Local economic departments are urged to stimulate commodity circulation, open up new markets and provide enough energy and production raw materials.

More than 170 big exporters and tax-payers will enjoy priority in using energy, raw materials and funds, he said.

Referring to agriculture, Huang said, the city will continue to carry out all the existing rural policies, increase investment in agriculture, encourage efforts to raise crop output by popularization of modern scientific farming methods, build more vegetable and nonstaple food production bases and try to reap an all-round bumper harvest of grain, cotton and oil-bearing products.

Many municipal leaders deem that the current sluggish market will not last long. So they are determined to tightly control price hikes and pave the way for vigorous economic growth in 1990.

As the country's largest financial center, the city will attract more foreign funds, build more stock exchanges, improve management in this field and promote the efficiency of Sino-foreign joint ventures.

Huang urged all leading officials in the city to go down to grassroot units for investigations, help them solve concrete problems and take the lead in living a plain life.

**Jilin Trade Union Council Holds Plenary Session**

*SK3012074389 Changchun Jilin Provincial Service in Mandarin 1030 GMT 29 Dec 89*

[Text] The third enlarged plenary session of the eighth provincial trade union council was held in Changchun from 26 to 29 December. Du Qinglin, deputy secretary of the provincial party committee, gave an important speech at the session. He stressed trade unions are mass organizations of the working class under party leadership. Trade union organizations should adhere to the correct political orientation and take the initiative in maintaining a high degree of unity with the party Central Committee in politics, ideology, and action. Under current circumstances, trade unions should coordinate their efforts to safeguard the practical interests of workers with those to safeguard the basic interests of the party and the state. In the period for improvement, rectification and deepening of reform, trade unions should place ideological and political education in an important position. They should become the channels through which the masses of staff members and workers participate in and discuss the administration of state affairs, and should often report to the party and the government what the masses of staff members and workers require, and get deeply involved in helping staff members and workers to solve practical problems.

Geng Guoliang, chairman of the provincial trade union council, gave a report entitled "Arouse Spirit, Unite in One To Work Hard, and Mobilize Staff Members and Workers Throughout the Province To Resolutely Fulfill the Tasks for the Endeavor of Improvement, Rectification, and Deepening of Reform." Some 179 city, prefectoral, autonomous prefectural, county and district trade union responsible persons attended the session.

**Shandong Port Promotes Export-Oriented Growth**

*OW2912184389 Beijing XINHUA in English 1208 GMT 29 Dec 89*

[Text] Yantai, December 29 (XINHUA)—Yantai Port on China's east coast has sailed through the tough economic retrenchment by readjusting its business strategy to boost export-oriented growth on the Shandong peninsula.

The latest statistics from the Yantai Port Administration show that the port had handled 6.5 million tons of cargo by mid-December and import-export goods accounted for half, an increase of 44 percent over the same period last year.

Yang Yusheng, the port administration's chief economist, said that in early 1987 the port began to target its development on export-oriented growth in Yantai, one of the 14 coastal cities opened to foreign investors in 1984.

In order to facilitate growing trade and business, port authorities decided to diversify by increasing cooperation with Chinese and foreign partners.

In addition to a foreign vessel fuel supply company, a joint venture with Hong Kong opened earlier this year to manufacture plastic packaging materials. It has earned the port one million yuan.

The port also opened four container shipping lines to Hong Kong, Japan and South Korea, pushing the number of containers handled from 700 last year, its first year in the business, to 7,000 in 1989.

Although the 10th biggest among China's coastal outlets in handling capacity, Yantai Port is now among the leaders in other indexes including per-capita revenue, profit per ton and the proportion of foreign trade cargo.

The first period of the port expansion project began in 1985. Four new deepwater berths are now available for use. Another two berths will be completed by June 1990, raising the port's annual handling capacity to 12 million tons from the seven million tons in 1988.

Plans for another six new deepwater berths have been worked out in the second phase of port expansion in a bid to provide better transport infrastructure for foreign trade and investment in the peninsula region.

**FINANCE, BANKING**

**Securities Market Reemerging in Shanghai**

*90OH0086A Hong Kong LIAOWANG OVERSEAS EDITION in Chinese No 42 16 Oct 89 pp 15-16*

[Article by Han Guojian (7281 0948 1696): "Shanghai Reestablishes Securities Market"]

[Text] In the early 1980's, the restructuring of the economic system in China did away with the centralized bank credit system. Banks began to issue treasury bills and bonds, and more and more enterprises were issuing stocks. In their wake, securities markets began to appear in Shanghai, Shenyang, Wuhan, Chongqing, and other industrial cities.

Between 1981 and 1988, mainland China has issued 98 billion yuan's worth of assorted stocks and bonds, and Shanghai was responsible for a large portion of that. During that period, Shanghai issued nearly 8 billion yuan's worth of stocks and bonds with one-year or longer term, accounting for eight percent of the nation's total issuance. Specifically, besides treasury bonds, financial bonds, and bonds issued by the state to fund key constructions, 1 billion yuan's worth of bonds were issued by 800 of Shanghai's enterprises, accounting for eight percent of the nation's bonds of the same class; another 1.8 billion yuan's worth of stocks were issued by 1,700 enterprises, accounting for 50 percent of the nation's stock issuance.

Since the securities market opened in 1986, 500 million yuan's worth of securities have changed hands in Shanghai, which equal 16 percent of the nation's transactions, and out of that sum, 42 million yuan are stocks

and enterprise bonds, which account for 42 percent of the nation's total volume of exchange.

### The Standardized Issues

Shanghai's securities issuance market has undergone a gradual standardization process. More securities, in terms of variety and quantity, are listed in the market. In 1986, only two kinds of stocks were listed; they were worth over 5 million yuan. By the end of 1988, six kinds of stocks and 20 kinds of bonds were listed; their value has doubled, topping 1.2 billion yuan.

According to Mr. Wang Dingfu [3769 1353 3940], manager of the Monetary Administration and Management Department of the Shanghai branch of People's Bank of China which overlooks Shanghai's securities market, the livelihood of securities depends on circulation, and circulation is predicated upon the standardization of the securities. That is why Shanghai has always managed the securities issuance market centrally.

In August 1984, in response to the requests of many collective-owned enterprises to issue stocks, Shanghai promulgated some temporary provisions on enterprise stock issuance. They were the first locally issued rules and regulations regarding stock issuance in the mainland. They stipulated certain conditions enterprises must meet before issuing stocks, the rights and privileges of the stockholders, certain innate properties of the stocks, and the scope within which the stocks can be traded. They also encouraged the qualified enterprises to issue standard stocks which meet listing requirements.

In November of the same year, for the first time, one of Shanghai's collective-owned electronic sound equipment enterprises, Feile Acoustics Company, went public with 10,000 shares of stocks, at 50 yuan a share. Two months later, another collectively owned enterprise, Yanzhong Realty Company, issued 100,000 shares of stock with the same 50 yuan par value. These two issuances were handled by the Trust and Investment Company of the Shanghai branch of People's Bank of China. Because both stocks were fairly standardized, they became the first negotiable securities to be traded in the market.

Madame Zhang Ning [1728 1380], a cadre at People's Bank who overlooks stock issuances, said, Shanghai's stock management rules stipulate that stocks are transferable only within the scope of their issuance. Most enterprises that issued stocks worried about "draining their own profit and benefitting someone else," so they only issued stocks internally, and most stocks were like bonds which have fixed redemption dates; therefore, although many stocks were issued, few could be traded in the market.

To improve the situation, Shanghai began experimenting with allowing the large state-run enterprises to issue stocks. In January 1987, the Shanghai Vacuum Electronic Device Shareholding Company (henceforth called "Electronic Vacuum" for short) went public with more than 570,000 shares of stocks with 100 yuan par value.

Half of the total issuance were intended for purchase by individuals. This issuance also made a clear distinction between stocks and bonds, so that more stocks could be traded in the market.

Since then, Shanghai has worked hard to adopt international conventions when issuing stocks. In March 1988, "Electronic Vacuum" issued and sold to the public 15 million's worth of premium stocks at above par value. Last July, Bank of China's Shanghai Trust and Investment Company underwrote 29.5 million yuan's worth of stocks for Shanghai's Dazhong Automobile Company, Ltd., a Sino-foreign joint-venture company. In April of this year, three securities company, led by Shanghai's Haitong Securities Company, joined one of the bank's trust and investment company to form an underwriting group to assist "Electronic Vacuum" with the sale of its third issuance of stocks, worth 22.1 million yuan.

All of the above practices were unprecedented in the mainland. What is even more noteworthy is, in order to turn the people's concept of stock purchase as a form of saving into an investment concept, in February of this year, Shanghai's Feile Acoustics Company, which has been in business for four years, issued another 30,000 shares of stock (at 50 yuan a share) through a method of combining compensated and uncompensated additional paid-in capital. The company used its several years' accumulation and the current year's stock dividends as paid-in capital. Meanwhile, existing shareholders pay only 30 percent of the par value of the stock to get the same number of shares of the new stock as they have originally invested in.

That move shook the whole of Shanghai. Many people who had lost interest in stocks because of inflation and higher bank interest rates began to look at stocks with renewed interest. Overnight, the price of Feile Acoustics Company's stock skyrocketed. At its peak, the market price was twice the par value.

Mr. Wang Dingfu has high praises for this move. He said, the value of stocks lies not in the amount of dividends paid but in the appreciation of the stocks' own value. The existing government-set ceiling on payout ratio at 15 percent is too high. It hampers enterprise development. The ceiling should be lowered to around five percent.

### Targeting the Individuals

At present, there are 11 securities exchange counters and 13 securities exchange agencies in Shanghai. They form a fledgling over-the-counter securities exchange market. As the scope of transactions expands, three securities firms that specialize in the securities trade have opened in Shanghai, making Shanghai the city with the most securities firms in China today.

Shanghai's first securities exchange counter opened in September 1986. At that time, to satisfy the needs of many shareholders who urgently wanted to cash in their stocks, Jing'an Trust and Investment Company of the

Shanghai branch of Bank of Industry and Commerce of China spearheaded the stock exchange operation. This piece of news drew the attention of financial and media circles at home and abroad.

In the old days, Shanghai was China's largest financial center. In the 1940's, the scope of Shanghai's stock exchange operation was even larger than Hong Kong's and was comparable to Tokyo's market today. Shanghai's stock prices could impact the whole of Asia. All these vanished in 1949, with the founding of the PRC. But 37 years later, the stock market is playing a dramatic role in Shanghai again.

In essence, Shanghai's stock market today is very different from that of the old. According to Jin Jiandong [6855 1696 2767], manager of People's Bank of China's Monetary Management Department, the reason the government opened up the securities exchange market is to enable the public to freely cash in the securities they have on hand and also to provide those willing to purchase securities in the secondary market with an opportunity while eliminating the black market at the same time. The state prohibits enterprises and institutions from buying and selling securities.

Mr. Wang Guixian [3769 6311 7359], manager of Shanghai's Jingan Securities Operation Department, which spearheaded securities exchanges, said, except for a few civilian-run foundations which have purchased some securities in the secondary market as a form of savings, Shanghai's securities exchange market is dominated essentially by individual buyers. Since individuals have limited funds, each transaction is worth only a few hundred yuan; the biggest deal may be worth 10,000 yuan. This set up positively rules out speculators like those in the pre-liberation era who controlled the market with volume buying and selling.

The fact of the matter is, the development of Shanghai's securities exchange market is marked by the listing of treasury bonds, which are the most popular type of security among the citizens. In April 1988, when the trading of treasury bonds was approved, the average daily volume of transaction was worth 3 to 5 million yuan; in the first quarter of this year, the volume exceeded 1.8 million yuan.

#### The Increasingly Evident Market Characteristics

When Shanghai first launched securities exchanges, there were no clear market characteristics. Exchange prices were ascertained based first on the current bank interest rate and then the estimated interests and dividends were calculated based on the number of days the securities were held. Since last April, certain market characteristics have emerged. On the whole, the securities market is affected by the following factors:

*The effect of the supply-demand relationship:* Treasury bonds are the most widely issued government bonds in China. Last April, when the first treasury bonds became available in the market, their prices soared higher in

Shanghai than in almost anywhere else in the country. As a result, many out-of-town treasury bonds flooded Shanghai's market, creating an excess supply. Upon adjustments, prices in Shanghai dropped back to a level more or less at par with the other cities. According to Mr. Zhuang Ming [5545 2494], manager of Shanghai's Wanguo Securities Company, Shanghai has seen such incidents several times before.

*The effect of the securities' profit level:* According to Wang Dingfu, today, 400,000 people (three percent of the municipality's population) frequent the securities market. They follow the market very closely and always choose the best exchange counter and the best time to do business. For this reason, Shanghai T.V. is now broadcasting current market quotations every other day.

*The effect of product prices:* Last fall, there was panic buying in the market, and Shanghai's securities market tumbled. Many big accounts dumped their shares by the dozens and by the hundreds. The prices of long-term bonds also fell below their issue prices.

*The effect of bank interest rates:* This year, since the banks offered inflation-proof savings accounts, the annual dividends and share bonuses enterprise stocks pay out have fallen below the bank rates, and as a result, most stock prices have fallen to, or even below, par value. Many stockholders are dumping their shares as soon as they get their bonus and dividends. So far this year, many times more stocks are for sale than what people are willing to buy.

*The effect of psychological expectations:* Most people who invest in stocks believe that product prices will level off within a year or so; thus, one-year term securities are very popular. In the secondary market, securities maturing in a year or so are hot also; securities with more than two years to mature are shunned, even though at the going prices, their yield will be as high as 20 percent upon maturity.

Market experts suggest that the last three factors are directly responsible for the current down market in Shanghai; they have also hampered the progress of the enterprise shareholding system. This spring, "Electronic Vacuum" had planned to issue 22.1 million yuan's worth of stocks, but only one-quarter of that was sold. A company official said, "If one looks at the company's present business and future development, our stocks should sell well. The first two issuances in early 1987 and early 1988 were sold out immediately. This year, the bank's deposit rate is higher than the share bonus and dividends. Who is going to buy stocks any more?" Shanghai Municipal People's Bank has disclosed that eight enterprises have put their plans to issue stocks this year on hold.

**Market Management**

People's Bank is the prime administrator of Shanghai's securities market. The municipal government has promulgated specific provisions regarding the issuance and exchange of securities.

The "provisions" prohibit party organizations and state organs at all levels, non-independent accounting units, foreign organizations, foreign individuals, foreign investment enterprises, cadres in party and state organs, and active servicemen from purchasing stocks.

The "provisions" also urged those who issue, buy, and sell stocks to refrain from dishonest, deceptive, and other conducts that cause people to mistrust them. Last year, an enterprise was prosecuted for misrepresenting its business success and profit level in the newspaper prior to issuing its stock.

To prevent speculation and profiteering, all transactions of securities listed in Shanghai's market are spot transactions, and enterprises that have issued stocks are strictly prohibited from purchasing their own stocks over the counter. This prevents people from manipulating the market and causing serious market fluctuations.

Enterprise insiders are prohibited from buying and selling the stocks of their affiliated enterprises. Early this year, a Shanghai company let it be known to some of its shareholders that the company would soon issue its third-phase stocks which would be priced at below market value. With this piece of news, some people dumped their old shares at market price and repurchased the new shares at their issue price. Some people turned around and netted several thousand yuan. Top officials of that enterprise were later prosecuted.

Shanghai's securities exchanges are limited to trading by principals or through agents. In the former case, the price disparity is limited to two yuan per 100 yuan of stock purchased or sold; in the latter case, the agent may charge both the buyer and the seller a 0.3 percent handling fee. Other than those stipulations, the exchange counters are free to price their securities as they see fit and compete freely. This setup not only makes securities operations more convenient but also brings risks to the business. A change in prices in one exchange counter can ripple across the market. To prevent reckless competition, and spearheaded by People's Bank, the exchange counters have developed among themselves a system of disclosing to one another the daily exchange price and volume, and official from the exchange counters attend an information exchange meeting every week to analyze the market situation and solve newly emerged problems.

Financial experts in Shanghai generally agree that Shanghai's securities exchange market is still at its initial stage and the small number of listed stocks is one of its characteristics. At present, of all the stocks issued, only 30 million yuan's worth are listed. The operation is also very primitive: Basically, Shanghai's securities exchange market has no legally recognized brokers, and there are

no institutional investors. All transactions are over the counter, and because everything is handled manually, communications is very poor, and therefore it is unlikely that an over-the-counter market network can be formed. Because of these drawbacks, experts agree that, at least within the next five years, Shanghai will not have a securities exchange to accommodate centralized trading through price competition.

**Ways To Increase Central Government Revenues**

90OH0231A Beijing JINGJI CANKAO [ECONOMIC INFORMATION] in Chinese 18 Dec 89 p 1

[Article by Xiu Peisheng (0208 1014 3932), Research Office, State Council: "Increase the Two Percentages Appropriately"]

[Text] The 5th Plenary Session of the 13th Party Central Committee set forth the main goals for improving the economic environment and restructuring the economic order. An extremely important action to be taken to realize this major strategic decision is the need for gradual increase in state financial income as a percentage of national income, and centrally controlled financial income as a percentage of all financial income.

Why should increase in national financial income as a percentage of national income, and centrally controlled financial income as a percentage of all financial income be elevated to such an important position?

First of all, basic decisions and judgments about the financial and economic situation require a raise in the "two percentages."

If one agrees that the country is currently in a serious economic predicament, then the country's financial situation is even grimmer. On the income side, despite the steady increase in financial income during the past several years, state financial income as a percentage of financial income has declined steadily. In 1984, it was 26.7 percent; in 1988, it was 22 percent. The decline in state financial income as a percentage of national income is attributable, first, to the excessive concessions made in recent years. Tax revenues decreased by more than 80 billion yuan as a result of concessions made during the past 10 years. Second is the imperfect tax collection system in which tax cheating and tax evasion is extremely common. Third, is an expansion of welfare in kind whereby housing and medical treatment are provided free of charge, which reduces financial revenues. On the expenditures side, the lack of income makes it difficult to insure payment for ordinary needs. In recent years, government finance has become "subsistence finance" that is difficult to continue. Allocations for capital construction as a percentage of government financial expenditures totaled 40.7 percent in 1978 and 23.2 percent in 1988. Meanwhile, expenditures for subsidies increased manifold, reaching between 70 and 80 billion yuan annually. In order to carry on construction, the government has had to go into debt, the current internal debt balance reaching more than 80 billion

yuan, and the external balance exceeding \$40 billion. The debt repayment peak period will soon arrive, meaning an extremely heavy burden for government finance. While income within the financial budget has been declining, funds not covered in the state budget have increased enormously during the past 10 years. At the same time, the amount of centrally controlled finance has become less and less, centrally controlled financial income as a percentage of total financial income declining from approximately 70 percent during the 1950's to 47.2 percent in 1988. During the past 10 years, except for 1985, the central government has shown a financial deficit every year, and local governments have shown a small surplus in most years. The foregoing situation shows that appropriate increase in the "two percentages" is very necessary.

Furthermore, lowering of the inflation rate, control of the amount of currency issued, and reduction or elimination of fiscal deficits requires an increase in the "two percentages."

Fiscal deficits are the main reasons for increasing the amount of currency issued, which leads to inflation; however, the fiscal deficits do not result from financial expenditures exceeding financial income. During the past several years, financial expenditures for price supports and the subsidization of enterprises' losses have reached between 70 and 80 billion yuan; expenditures for capital construction have used up another more than 60 billion yuan; and administration expenses, and national defense expenditures have taken an additional more than 100 billion yuan. Of these expenditures, only those budgeted for capital construction did not increase enormously; the other two increased very rapidly for an ever increasing burden. However, the speed of increase in financial income was much lower than the speed of increase in society's gross output value. After deducting for price increases, financial income showed negative growth each year. How could there be anything but a deficit from an income and expenditures situation such as this? When deficits occurred, what could be done? The government had no choice but to make bank overdrafts, incur debt, and force banks to issue currency, giving rise to inflation. Therefore, state financial income must be increased, particularly the level of central government controlled financial income, to enable it to cover expenditures, reduce deficits, and wipe out deficits, thereby enabling a reduction in the issuance of currency and control of inflation. In addition, too great a tilt toward enterprises and individuals in the distribution of national income in recent years, causing a rapid increase in the amount of income outside of budget, has been another major cause of fiscal deficits and an increase in the issuance of currency occasioning inflation. In 1988, the amount of funds outside budget equalled 92.4 percent of all budgeted income. As the amount of extrabudgetary funds increased, state finances declined correspondingly. The increase in extrabudgetary funds, and the jump in residents' savings accounts and cash on hand produced a dramatic increase in demand that has long

been difficult to control, thereby increasing the perniciousness of inflation. Only by increasing the portion of funds in society amenable to control through rational methods, thereby increasing financial resources within budget and increase financial resources under central government control can this danger be eliminated.

Third, increasing returns from enterprises, insuring a proper speed of economic development, and readjustment of the industrial structure all require an increase in the "two percentages."

Increasing enterprises' returns, particularly enhancing the economic quality of large- and medium-sized state-owned enterprises to insure the leading role of the "national team" in economic growth requires that the treasury obligate some funds to support these enterprises, and to support their technical transformation and new building projects so that they can develop steadily.

Maintenance of a proper speed of economic development requires holding down overly high speed development of township and town enterprises and other enterprises that depend on extrabudgetary financial support whose product structure is not consistent with industrial policies. This requires the adoption of appropriate policies and transitional steps to bring gradually within budget some funds currently outside budget. Readjustment of the industrial structure even more requires strengthening of the central government's financial strength. The irrational nature of the industrial structure is manifested strikingly in proportional imbalance in the development of basic industries and processing industries such as agriculture as well as energy, and raw and processed materials. Increased investment in agriculture, and increased budgeted investment in basic industries such as energy, and raw and processed materials depends on the government treasury, mostly an increase in central government financial expenditures.

Finally, the building of a macroeconomic regulation and control system that is in keeping with the principle of combining a planned economy with market regulation requires that government finance, particularly finances under central government control, maintain solid strength.

Since China's economy is one in which a planned economy and market regulation are interlinked, the dominant position of the macroeconomic regulation and control system must be maintained. Maintaining this dominant position requires that the central government possess sufficient financial strength. This is the only way that the country's planned commodity economy can continue to operate on a fixed course despite economic ups and down, deficits, inflation, and such economic difficulties, or other domestic or foreign situations that produce powerful market shock waves.

So, how can the "two percentages" be increased? To put it succinctly, by rationalizing distribution relationships, readjusting distribution policies, and rectifying the distribution order. This requires improving the economic

environment and restructuring the economic order for a period of three years or longer, bringing within budget extrabudgetary funds and other funds in society that are increasing irrationally, increasing state controlled income as a percentage of national income, and concentrating most of this increased income under central government control in order to employ an increase in the "two percentages" as a means for realizing the goals of improving the economic environment and restructuring the economic order.

## INDUSTRY

### Steel Output Quota Fulfilled Ahead of Schedule

OW2312203889 Beijing XINHUA in English  
1454 GMT 23 Dec 89

[Text] Beijing, December 23 (XINHUA)—China has fulfilled its steel output quota for this year 13 days ahead of schedule, according to the METALLURGICAL NEWS.

The newspaper reported that by December 18, over 59 million tons of steel had been produced in the country.

Earlier this year, the steel production slumped due to a shortage of energy and funds.

However, the production steadily increased after the State Council held a coordination meeting on steel production in March.

The newspaper said average daily steel output last month was 183,700 tons, a record.

### Light Industry Expects Six Percent Production Increase

HK2812020889 Beijing CHINA DAILY in English  
27 Dec 89 p 2

[By our staff reporter Qu Yingpu]

[Text] A production increase of six percent is planned for China's light industry next year, as domestic market demand is recovering from the slump in the past few months, a senior State official said in Beijing yesterday.

The planned growth rate is slightly higher than the expected four percent this year but still much lower than the average annual rate of 17.6 in the last 10 years.

China's light industrial output (including tobacco) this year is expected to be 225 billion yuan (\$48 billion), for a growth rate of only four percent, the lowest since 1978.

Gong Zhaorong, chief of the Ministry of Light Industry's production co-ordination bureau, told the ongoing national meeting on light industrial planning that the targets for next year were made in anticipation of a steadily recovering market.

Despite the present slack market, total social demand for light industrial goods, especially people's daily necessities, such as sugar, still exceed the supply.

Gong said total national bank savings deposits are 700 billion yuan (about \$150 billion) at present, an equivalent of the total national retailing of more than 10 months. The money represents a huge threat of another panic-buying situation.

"The demand revival next year is ensured by two factors," he said. One is that consumers' storage of goods after the 1988 panic buying has been absorbed. The other is that light industrial production has been hampered this year by a shortage of funds and slack sales.

Gong said the production of goods needed in people's daily lives and agricultural production will be ensured next year.

The include paper, newsprint, sugar, salt, detergent, soap, matches, light bulbs, pencils, plastic goods, enamels and aluminium items for daily use, and plastic sheets for farming.

Output of these goods will see an increase next year, Gong said.

The foreign exchange-earning products such as canned food, pottery pieces, carpets, embroidery pieces, toys and leather shoes are expected to see an increase according to their production planning.

China is expected to export a total of \$11.5 billion worth of light industrial products this year, \$2.5 billion of which are processed with foreign materials.

Gong said the production of raw materials for light industry will be increased enormously next year.

He said the planning for next year's production of such durable products as bicycles, wrist watches, sewing machines, refrigerators, freezers, electric fans, washing machines, pianos and beer will either remain at this year's scale or drop a little bit.

Items in this category have made huge stockpiles this year. Producers were urged at the meeting to take their products to China's 800 million rural population. They are also encouraged to expand export to survive the domestic demand plunge.

However, production will slide for products that take large amounts of energy, material and foreign currency. These products include air-conditioners, vacuum cleaners and liquor.

Wu Weili, the ministry's planning bureau chief, told the meeting that the State will apply tight control on light industrial investment next year.

The size of the planned investment will be about at this year's level. Altogether 1.4 billion yuan (about \$291.1 million) has been invested this year.

Basically, no investment will be put into new projects. For those projects already in construction, next year's limited funds will concentrate on projects producing raw materials and high-tech products.

He said the State will not subsidize provincial projects. All investment money will have to come from local areas.

### Iron, Steel Company Profits Up 20 Percent

0W3112082889 Beijing XINHUA in English  
0811 GMT 31 Dec 89

[Text] Beijing December 31 (XINHUA)—The Capital Iron and Steel Company, one of China's 10 largest iron and steel producers, has earned 1.889 billion yuan this year, a 20 percent increase over last year.

This is the eleventh consecutive year that the company has had a 20 percent increase in profits.

The company, located in western Beijing, was the first to introduce the responsibility system as the country's economic reforms began in 1979.

The company has export earnings of \$56 million this year, 2.71 times of that last year.

## SMALL-SCALE ENTERPRISES

### Rural Enterprise Problems Analyzed

900H0116A Beijing NONGYE JINGJI WENTI /PROBLEMS OF AGRICULTURAL ECONOMY/ in Chinese No 10, 23 Oct 89 pp 22-27

[Article by Yu Guoyao (0151 0948 5069) and Li Yandong (2621 1484 2639) of the State Council's Rural Development Research Center]

[Text] I. The Difficulties and Problems Facing Township and Town Enterprises

1. *The decline in the blind expansion in the buildup of assets flowing to township and town enterprises.* In recent years, a favorable economic, political, and regional environment has enabled Jiangsu Province township and town enterprises to increase their investments in fixed assets at a faster than normal rate. In 1984, the increase in new investments in fixed assets for township and town enterprises throughout the province was under 2 billion yuan. In 1988, the figure was 5.6 billion yuan, more than double in four years. Because the investment was so large, far exceeding the accumulating capacity of the enterprises themselves, two serious problems arose in the composition of enterprise funds. First, operating funds were squeezed to the extent that a considerable amount of the enterprises' own accumulation was invested in the buildup of assets. Then, to compensate, they had to rely on borrowed money for operating funds. For example, the proportion of operating funds that enterprises in Wuxi City had on hand at the end of 1988 fell to 21.4 percent from the 24.9 percent they had on hand at the

end of 1987. And the proportion of enterprise operating funds on hand in Zhenjiang City came to 23 percent, a 15.55 percent drop from 1987. Second, enterprises went beyond normal limits of debt management. For example, at the end of 1988 in Zhenjiang, the total capital debt ratio for enterprises was 58 percent, a 32.3 percent increase compared to 1987. In 1988, the debts of Wuxi enterprises increased 40 percent compared to 1987, their capital to debt ratio climbing from 38.25 percent to 40.39 percent. In our present economy, enterprise debt is an inevitable accompaniment of economic activity. An absence of debt is, in fact, extremely rare. However, at present debt management by township and town enterprises has occurred under conditions where the deployment of key elements has been misdirected. A proportion of this debt ratio comes from enterprises letting part of their capital buildup stand idle. However, if their buildup of assets were effectively utilized, even more operating funds would be required and the capital to debt ratio would also be even higher. Irrational capital composition and a high capital to debt ratio affect the normal operations of enterprises and even imperil their existence. For example, although in absolute terms the reserve capital of Wuxi enterprises at the end of 1988 was 439 million yuan greater than in 1987 (because of price rises), their stocks of raw and processed materials and goods produced was generally less than in 1987. Thus, coal decreased 22 percent, coke 62 percent, pig iron 54 percent, rolled steel 14 percent, and the stocks of such raw materials as cotton cloth, cotton yarn, chemical fibers, sheep's wool, plastic particles, and nonferrous metals were smaller. Some that only had a few days of production capacity worked intermittently. Some of the larger, newly opened enterprises, many of which had relied on borrowed money to get started, lacked operating funds because of the sizeable interest payments they had to make. Some of these had to suspend operations. Because funds were so tight, the situation with respect to delinquent accounts between one enterprise and another became extremely serious. At the end of 1988, the accounts payable of Wuxi enterprises came to 2.756 billion yuan, a 38 percent increase compared to 1987. Accrued loans accounted for 30.7 percent of this amount. Compared to 1987, the accounts payable of the Zhenjiang enterprises increased 19.5 percent. Accounts payable of enterprises throughout Jiangsu that exceed 1 year or more total 2.5 billion. In addition, short-term interest loans that the agricultural businesses have contracted outside the province to set up enterprises came to 1.1 billion yuan. Since the life of these loans is relatively short, they have to continually borrow from Peter to pay Paul to build capital for long-term use. Keeping track of all the transactions is quite difficult. Even though there is a certain market for input and output products, given the present state of enterprise investments, the serious shortage of enterprise operating funds will not be alleviated for a long time.

2. *The increasingly serious problem of price increases for energy and raw and processed materials.* This year, with

the entire macroeconomic supply system suffering further shortages, with several categories of important capital goods under special management or unified management, and with difficulties being aggravated even more by energy and raw and processed materials being obtained through the market and jointly managed by cities and large industries, prices rapidly increased. The price of coal rose from 130 yuan per ton at the beginning of 1988 to its current price of 250-300 yuan per ton. Because of a lack of coal, the amount of electricity being generated by power plants suddenly declined for a period of time. A major power plant in Jiangsu, the Jianbi Power Plant with an installed capacity of 1.6 million kilowatts, in January 1989 only produced 500,000 kilowatts. The negotiated price of electricity has increased from .40 yuan per kilowatt-hour in 1988 to .65 yuan per kilowatt-hour (average for Wuxi City). Since negotiated-price electricity only assures a portion of enterprise needs, more and more are buying diesel generators. And because of the increased number of plants using them, the price of diesel oil has been pushed up. It has risen from 1,200 yuan per ton in 1988 to its present price of 1,800-2,000 yuan per ton. The prices of raw and processed materials have also greatly increased. According to several representative surveys made of enterprises in Wuxi County, from the beginning of 1988 to March of 1989, the price of stainless steel products rose from 10,000 yuan per ton to 30,000 yuan per ton, coils used in electric fans from 15,000 yuan per ton to 32,000 yuan per ton, fine-grained steel sheets from 1,600 yuan per ton to 4,850 yuan per ton, and aluminum alloy from more to 6,000 yuan per ton to 13,000 yuan per ton. The rise in the price of coal and electricity has directly affected production in the chemical fertilizer industry. For example, the producer's price of ammonium bicarbonate has been adjusted upwards from 240 yuan per ton to 280 yuan per ton. Despite preferential treatment with regard to credit, taxes, and materials, it is still difficult for chemical fertilizer plants to continue production. Although short supplies do drive up prices, under the present structure, it is still difficult to use the price rises to shape the economic levers for restraining demand.

3. The effect on economic efficiency of the increased costs of enterprise operations and administration. People usually think technical makeup is the reason the economic efficiency of township and town enterprises is lower than state-run enterprises. However, from the start of the eighties, more and more township and town enterprises in southern Jiangsu began to use new equipment not much different from that of the large industries in the cities. Following rapid renovations and technical changes, the equipment of the township and town enterprises was equal to that of many urban enterprises. It is very difficult then to explain enterprise economic efficiency in southern Jiangsu on the basis of technical makeup. We think there are mainly three aspects affecting enterprise economic efficiency. First, changes in the external environment have increased operational and administrative costs. For example, the cost of capital goods has risen. Second, the utilization by enterprises of

their buildup of assets is seriously deficient. Stocks of materials, unmarketable finished products, and unpaid accounts receivable are eating up profits, nonproductive spending has become excessive, and repayment of loan interest has become burdensome. Third, employee wages and bonuses exceed the efficiency level of the enterprises. Some enterprises have no way to control some of these factors. However, some have definitely been created by policy mistakes made by the enterprises, which have directly affected their economic efficiency. Of course, there are still some enterprises using obsolete equipment.

4. The heavy social burdens that still restrict enterprises from developing their own mechanisms. In 1988, the net output value of Wuxi City enterprises was made up as follows: state income (including bank interest), 23.95 percent; rural area (township) and village income (including social spending), 10.53 percent; building up agriculture, 4.16 percent; employee wages, 32.92 percent; and enterprise income, 28.44 percent, of which only 22.03 percent was used to develop production. Actually, the real situation is more complicated than these ordinary statistics. According to a survey by pertinent departments of four Wuxi County enterprises, that is, the Chaqiao Bicycle Plant, the Hongsheng Shearing Machine Plant, the No 3 Steel Cable Plant, and the Suburban Taihu Fishery Machinery Plant, they realized 57.83 million yuan in sales in 1987 and had final profits of 6.8257 million yuan. Of this amount, 2.9672 million yuan was paid out for social expenditures and prorate distributions, constituting 43.5 percent of the final profits, which was only 28 percent of the amount stipulated by policy. In addition to the stipulated retention of funds for depreciation and major overhauls, rural area enterprises also have more than 10 types of withdrawals and a multitude of prorate distributions. This creates more work than the enterprises can handle and is also one of the major reasons they find it difficult to form their own mechanisms for accumulation.

5. "Retrenchment's" even greater restraint on the expansion of newly opened enterprises (mostly in northern Jiangsu). Many of the newly opened enterprises have had to rely on bank credit and the aid of rural township enterprises in the developed regions to get started. Influenced by the ideological guidance of the time to "start high," certain enterprises divorced themselves from actual conditions by being too anxious to achieve the size and standards needed to strengthen their competitiveness. Once "retrenchment" is initiated on a macroeconomic scale, it causes a considerable proportion of enterprise assets to be left idle. In our survey of the Xinxing Building Materials Plant in Luhe County, which is under the jurisdiction of Nanjing City, we found that several years ago the plant, with the support of the county townships, had received a loan of 11.5 million yuan to import advanced Italian equipment for the manufacture of various types of newly developed building tiles. In October 1988, the equipment was installed and put into operation. Because of the present

shortage of funds, materials, and electrical power, in addition to people's inadequate understanding of newly developed building materials, this year, with three production lines having an annual production capacity of 7.5 million square meters, they were only able to produce 20-30 thousand square meters. They have not even begun to pay off the interest on their loan for the fixed assets, not to mention repayment of the loan itself. A large plant and advanced equipment are lying idle there creating a vast amount of waste. There are many enterprises like this in northern and central Jiangsu. This type of problem is far from being solved in the near future by pooling resources or increasing partial loans.

### II. Choices Within the Predicament

As everyone knows, Jiangsu's township and town enterprises occupy an extremely important position. In 1988, the industrial output value of township and town enterprises constituted 47 percent (94.4 billion yuan) of the province's total industrial output value. The taxes they turned over to the state came to 3.01 billion yuan, they absorbed 9.789 million members of the rural workforce, and the workers and staff personnel in the collectively owned township and village industries stood at 30 percent (6.3 million members) of the rural workforce. This configuration has a decisive influence on the society and economy of Jiangsu and gives reason for various levels of government and departments to pay special attention to township and town enterprises and their growth. With regard to the present problems and difficulties, government and rural cadres and enterprise directors all realize, to varying degrees, the considerable need to implement improvement and rectification for the township and town enterprises. For the future growth of production, priority will have to be given to realizing internal potential and to gradually improving the ability for self accumulation. It will be necessary to strive to combine internal and external economic models and to readjust product mix according to market guidance. At the same, they are also in general agreement that, with the ever-increasing expenditures of rural communities and local governments, with the decline in economic efficiency brought about by various factors, and with the need for agricultural growth and for increased agricultural revenue, township and town enterprises should maintain at least a 15-20 percent growth rate, otherwise, not only will agricultural growth be affected but supply to the cities will also be indirectly affected. For these reasons, they have adopted the following series of measures based on Jiangsu's actual situation.

1) Reduce the extent of fixed assets investment. For example, Wuxi City has proposed trying to keep fixed assets investment this year to within 800 million yuan (compared to 1.4 billion in 1988). Generally, there will be no new big projects, with most funds being used to update technology and increase operating funds.

2) Readjust the product mix and enterprise organizational structure. Focusing support on the key rural enterprises which are more economically efficient and

more competitive, on enterprises producing particularly well-known products, and on enterprises mainly engaged in export and earning foreign exchange will enable these enterprises to undergo technical transformations and develop lateral relationships and mergers which will expand their scope and improve their technical levels and enable them to become the nuclei for establishing more enterprise groups and clusters.

3. Increase the channels for raising funds. First, mortgage contracts with enterprise employees are being instituted as a means of drawing upon their funds. Second, employees are being paid partial wages to cover their living expenses and honoring their bonuses as stipulated in contracts is being deferred to make loans to the enterprises for them to develop production. Retroactive payments will be made to employees at the end of the year or when the enterprise's situation has improved. Third, advance payment for sales is being obtained. Fourth, funds are being raised through lateral relations with urban enterprises. Fifth, sales taxes and income taxes that have been reduced or remitted are being used for enterprise expansion funds. Sixth, equipment depreciation funds are being utilized. Seventh, loans are being obtained. These are the methods that have been used to alleviate some of the pressing needs of the enterprises.

Other measures include: strengthening the basic administration of enterprises, developing education and training for employees, and intensifying enterprise institutional reform. On the basis of the present situation, we can see that our overheated industry has been somewhat contained. However, structural contradictions are still quite prominent, and instability still plagues economic growth. Some enterprises, which could increase the effectiveness of their supply, still face serious shortages of input goods. According to estimates, 30 percent of Wuxi's enterprises are operating greatly under capacity, and 10 percent of them have suspended production all together. Some people estimate that, if this continues, by the third or fourth quarter industrial growth could show a decline of considerable size.

### III. The Difficulties and Problems With Readjusting the Credit Structure

In recent years, the reform of Jiangsu's monetary institutions has been extremely beneficial to the growth of township and town enterprises. However, the sudden expansion in the amount of investment caused by the "borrow money, open a factory, and earn profits to repay the debt" way of thinking, as well as the rapid increase in consumption funds and the shock waves of panic buying, has made especially prominent the contradiction that we should be able to expand the source of funds and at the same time moderate demand. In 1984 the savings balance for Wuxi City agricultural businesses was 68.38 million yuan, but by 1987, they had a loan balance of 452.45 million yuan. Even without today's credit retrenchment, this type of savings-credit relationship had already quite clearly shown us the hidden perils of economic growth. In 1989, the loan balance of Jiangsu

agricultural businesses for township and town enterprises is the same as 1988 (9.8 billion). However, the 1988 new increase in fixed assets of 6.5 billion (of which 900 million was for projects completed at the end of 1987) will have to be made part of the operating fund for 1989 operations. This inevitably will give rise to a serious shortage of funds. As for coping with this situation, the banks can only protect or restrain the growth of various categories of enterprises through readjustment of the credit structure. However, readjustment during specific operations is extremely difficult and gives rise to several problems.

First, the ability of the banks to regulate industrial and enterprise structures and product mix by readjusting the credit structure is weakened by the profits of the localities and the special characteristics of the rural enterprise communities. With the gradually broadened decision-making power that reform has brought to local governments and enterprises, with the state's industrial policies and other measures for regulation and control lacking in force, and with local governments and enterprises having their success measured by how much they have increased income, local governments and enterprises naturally are strongly motivated to invest. After the retrenchment of banking during the fourth quarter of 1988, banks attempted to readjust the credit structure by focusing on capital. They supported enterprises which were efficient, which had a rapid turnover of funds, and which could increase effective supply, and they cut back on or terminated support for enterprises which were inefficient, which had a slow turnover of funds, and whose products had poor sales. However, because of protection by local governments, the special characteristics of the township and town enterprise communities, and insufficient market growth, achieving the envisaged structural readjustment was actually a very difficult operation.

The special characteristics of rural enterprises mainly manifest themselves as follows. In addition to pursuing as much profit as possible, the objective of enterprise growth also includes assuming responsibility for employing the residents of their own community and for various rural undertakings which would also include cadre compensation. To realize the latter two tasks of the objective, enterprises can make large concessions with respect to profits. When enterprises are confronted with serious difficulties, rural governments will do all they can to support and protect them and enterprise employees can have their wages reduced or deferred to share in the enterprise's plight. Enterprises that are closed down do not have to pay employee social insurance. These noneconomic factors of enterprise activities give enterprises a tenacious vitality and form the principal reason structural readjustment has been difficult to effect. Since there is no way to liquidate the asset buildup of poorly managed enterprises, these loans remain unused by the enterprises and the banks have no way to pull them back. Moreover, efficient enterprises that need further credit to support key projects have difficulty in implementing these projects because the banks are

unable to pull back their capital from the poorly run enterprises. The banks are on the horns of a dilemma.

Second, banking's own structure and system create conditions that inhibit regulation of enterprises. For example, enterprises can open multiple accounts. Suzhou City rural enterprises have more than 600 accounts. We have no intention of evaluating the structural reform of banking, but we would point out that, under our current banking structure, it is difficult to institute effective supervision of enterprise management. This is because, through the use of multiple accounts, enterprises are able to conceal their deteriorating financial situations and reduce their degree of risk. This also accounts for the regulatory weakness of banks during the period of renovation. In addition, according to what banking comrades say, the new financial accounting system that was instituted in 1987 for enterprises still does not classify an enterprise's own funds as fixed and liquid. Thus, there was no way the financial system could guarantee that an enterprise's own accumulation was distributed rationally among the two classes of funds. As a result, when the growth of processing and manufacturing industries overheated, most of an enterprise's own accumulation was put into fixed assets, thereby leading to an uncontrolled expansion of assets. This system made it harder to employ banking means of regulation.

Third, the decline in bank confidence also affected the results of regulation and control. Yanqiao Township in Wuxi County has a fairly large electric fan plant that sells industrial fans to more than 20 provinces and municipalities. In the past, after it delivered its products to the consumer, this plant would have its accounts settled through the bank's joint business settlement procedures. (Thus, the consumer would settle his account with the local industrial or commercial business, the local industrial or commercial business then would settle its account with the Wuxi industrial or commercial business, the industrial or commercial business then would settle its account with the agricultural business, and finally the agricultural business would settle its account with the producing enterprise.) It could take a week before the consumer's money was received. What happens now is different. After the consumer has settled his account with the industrial or commercial business, the industrial or commercial business puts off settling the account for at least a month and circulates this money for the firm's own use. According to reports, in the present circumstances, this type of problem, which is not an isolated phenomenon, is directly affecting confidence in state banks and impeding the establishment of normal business procedures.

It can be seen from this that readjusting the credit structure and moderating the contradiction between capital supply and demand present considerable difficulty. First, since township and town enterprises are only capable of submitting willingly to macroeconomic control, to cope with these circumstances, there must be conscientious rectification, overall intensification of

enterprise structural reform to enable property rights gradually to be clarified, strict control of inflationary growth of investment, restrained consumption, improved management, increased efficiency, and greater increase in assets accumulation by the enterprises themselves. Second, the banks have to change their ideas, improve their standards of service, increase their deposits, strengthen their management and supervision of credit, and give guidance throughout the enterprise on developing potential sources of capital. Third, there must be reform and improvement in banking's own structure and system.

#### IV. Several Important Issues

*1. A fair evaluation of township and town enterprises.* Township and town enterprises are an important mainstay of the agricultural economy and an important component of the national economy. Theoretical studies have elaborated many aspects of this topic. What follows only represents an analysis of two issues which we met during our surveys and which we are concerned about.

First, without the growth of township and town enterprises, there would be no growth of agriculture. This has become common knowledge among Jiangsu cadres, especially those in southern Jiangsu. Of course, without the support of agriculture, there would not be the township and town enterprises we have today. This mutual dependence and support guarantee the prosperity of Jiangsu's village markets and a high standard of living for the peasants. In recent years in Jiangsu, mainly in southern Jiangsu which is China's richest and most populous area, the potential for traditional agriculture has diminished. If we do not increase our input of essential modern materials, do not open new markets, and do not relieve from the land the pressures of overpopulation, then, transforming traditional agriculture to make it meet the needs of social and economic growth will not be possible. Therefore, if we are to guarantee the stable growth of agriculture under the presently existing price system and financial structure, we must, in addition to the economic support of the various levels of government for agriculture, mainly rely on the support of the township and town enterprises. Even those who object to the growth of township and town enterprises are likely to agree with industry subsidizing agriculture to increase agricultural input. However, once agriculture was mentioned, especially when grain was faltering and not advancing, people frequently overlooked the enormous support the township and town enterprises gave to agriculture. With the current improvement and rectification, this argument is bolstered even more. Objectively speaking, relaxing support for agriculture is an issue of overall importance. We should not allow township and town enterprises to assume this responsibility. On the contrary, without the growth of township and town enterprises, the input to agriculture will be seriously affected, which will in turn affect agriculture itself. Large fluctuations in agriculture directly affect the supply of food to the cities and the growth of light and textile industries there, thereby

affecting all socioeconomic production. Moreover, township and town enterprise tax revenues are significant to the expenditures of local financial administrations.

Township and town enterprise support of agriculture has also been a factor in solving agriculture's surplus labor problem. Recently, as cities have had less need for peasant labor and job opportunities in a great many cities have been closed off, the capacity of township and town enterprises to provide employment for the agricultural population has diminished. At the moment, these problems are easy for people to comprehend and to accept. However, in the long run, no country in the world can avoid the issue of providing employment opportunities for its surplus labor force. Neglect or inaction in face of this problem will have extremely serious consequences for society as a whole. Given the significance of this and the dual structure of the cities, maintaining a stable growth rate for township and town enterprises is an extremely important condition for the prosperity of the country and social stability.

Second, quite a few township and town enterprises have already forged business links with urban industries that will be difficult to break. This has been widespread in machine-building and among newly opened enterprises. Without even considering here the most developed cities of Suzhou, Wuxi, and Changzhou and only focusing on Zhenjiang, we find that of the 4.7 billion yuan industrial output value of the city's townships and towns, roughly 2 billion yuan are from those having varying degrees of economic ties with the urban industries and that 30 percent of the township and town industries have close ties with their urban counterparts. In other words, many of the enterprises have become "workshops" for the urban industrial enterprises. This type of business connection has made the township and town enterprises into an indivisible part of urban industry. If one suffers, they all suffer. If one prospers, they all prosper. Attempting to pressure township and town industries to preserve state-run industries would be divorcing ourselves from reality and would affect the growth of productive forces. Therefore, we must make a detailed analysis of township and town enterprises, and taking a negative attitude is totally unacceptable.

We agree that the overly high growth rate of township and town enterprises should be lowered. However, we recognize that it would not make sense to force the growth rate of the township and town enterprises below that of urban industry. In view of the special function that township and town enterprises have in developing the national economy (support to agriculture, solving the agricultural employment problem, etc.) and in view of China's special socioeconomic structure, the growth rate of township and town enterprises should be higher than urban industry. Of course, situations differ from one region to another.

While we are pointing out the important function of township and town enterprises, we also have to make clear that, in the past few years, the overly rapid increase

in investment in township and town enterprises has exceeded the present capacity of our economic, organizational, and technical resources, aggravated the irrational aspects of the industrial structure, and wasted a rather large amount of resources (for example, the excessive expansion of resource stocks). At the same time, the increase in nonproductive spending and consumption funds has also exceeded our capacity. The consequence has been to inhibit, over an extended period of time, the improvement of enterprise economic efficiency. Thus, from now on, it is in light of these aspects that we must look for a solution to the problem of continually enhancing the economic and social efficiency of enterprises, thereby enabling them to maintain stable growth over a long period of time.

2. Continually readjust the urban and rural industrial structures during reform. Theoretical studies show that the contradictions of an irrational structure are the product of a long historical process and that structural readjustments cannot be accomplished once and for all in a brief period of time. From what we saw in our surveys, the difficulties in readjusting structure are indeed very great. The usual argument is that the villages should develop industries for processing agricultural products, for building materials, and for mining, and that they should limit development of machinery and electrical appliance industries and textile and light industries. However, this would be very difficult to do. At least, after a prolonged attempt, we were unsuccessful in implementing the policy of making the processing of agricultural products the dominant industry of township and town enterprises. For historical reasons, industrial enterprises engaged in the processing of agricultural products have mostly been established in the cities where a rigid structure evolved based on local financial administration, an urban workforce, intraindustry interests, and enterprise skills. To sustain this structure the state instituted a system of special management or unified management for agricultural products and raw materials. Under this system, agriculture could only supply raw materials to urban industries according to stipulated prices, and the urban industries would then assume responsibility for their processing. The state purchase price for agricultural products was clearly lower than the price the peasants wanted, and this affected their enthusiasm. During the preceding several years of rural reform, the policy of purchasing the entire amount of agricultural products and raw materials was made somewhat more flexible. Some township and town enterprises took advantage of the situation to invest in the establishment of agricultural products and raw material bases and developed a group of agricultural processing industries. However, since the advent last year of special management or unified management, almost the entire effort of the township and town enterprises has come to naught. It should be pointed out that a considerable number of township and town enterprises that invested in establishing the bases possessed advanced equipment, were economically efficient, and produced products for export. It appears that, if we are to utilize and exploit

resources sensibly, take the initiative with raw materials and production areas, develop agricultural processing work in the villages, and harmonize urban and rural relations, we have to conscientiously do research. Measures set forth in oversimplified writings and vague, general industrial policies not only cannot fundamentally resolve the presently existing contradictions, if things continue as they have been, they are likely to make them even more difficult to resolve.

3. Continually enhance the enterprise capacity for self-accumulation while building the system. Under the circumstances of macroeconomic fluctuations, enhancing the capacity for self-accumulation is critical to stable enterprise growth. The key to enhancing the capacity for accumulation is property rights. The rural enterprises returning all property rights to the community is eroding enterprise profits from all sides and making it difficult for them to increase their self-accumulation and to forecast stable development. Until now, the share systems, the property mortgage contracts, and the mergers that have been implemented have mainly been to cope with immediate shortages of capital and, to a certain degree, to link employee benefits to the survival and growth of the enterprise. Cutting back on various type of nonproductive spending and speeding up capital circulation are also means of reducing enterprise costs and increasing accumulation. At the same time, enterprises can also link employee wages to economic efficiency. This too will control the inflation of consumption funds and increase self-accumulation. However, from a long-term point of view, we must genuinely establish a mechanism for self-accumulation. And this is only possible by clarifying enterprise property rights and on the basis of sound markets. With this in mind, enhancing the capacity of enterprises for self-accumulation is an important component of building an enterprise system. Only by grasping this key link and carrying out organizational and systemic innovations can we ultimately establish mechanisms for enterprise self-accumulation.

## FOREIGN TRADE, INVESTMENT

### Problems of Joint Venture Management

900H0019A Beijing JINGJI YU GUANLI YANJIU /RESEARCH ON ECONOMICS AND MANAGEMENT] in Chinese  
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[Article by Xiong Qingchuan (3574 2532 1557): "A Simple Analysis of the Nine Major Problems in the Management of Chinese-Foreign Joint Ventures"]

[Text] Since the promulgation of the "Law of the People's Republic of China on Chinese-Foreign Joint Ventures" in 1979, Chinese-foreign joint ventures have grown at a fairly rapid pace to more than 4,800 enterprises by the end of 1988, accounting for more than 40 percent of the total number of enterprises with foreign investment. However, nearly a third of these joint ventures are losing money.

Practice has proven that Chinese-foreign joint ventures are the most important way for China to make use of foreign capital, import technology, and learn from foreign management experience. But the failure rate is also quite high. Besides the investment climate factor, mismanagement is the most important cause.

Based on a six month, on-the-spot investigation and analysis of Chinese-foreign joint ventures in the Shenzhen Special Economic Zone (SEZ), the writer has found nine major problems in the management of Chinese-foreign joint ventures. This article will analyze these problems one by one.

**1. Because the Chinese and foreign investors in joint ventures are by nature opposed to each other in their relationship as owners, they do not share the same kind of concern and sense of responsibility about their joint ventures.**

China's present enterprise system dictates that the investment made by the Chinese side in a joint venture is the property of the state. By nature, this part of a joint venture is in an "unknown state." When a joint venture is doing poorly, the Chinese investors can just "feel sorry" about it, but the foreign investors, as direct or ultimate owners, are faced with the threat of "bankruptcy and ruin."

As the owners are different, so are the ways profit is distributed. And this results in the fundamental contradiction in the internal management of Chinese-foreign joint ventures. No matter how the two sides in a joint venture trust each other and try to work in harmony, and no matter what changes are made in the way enterprise is managed, it is impossible to fundamentally solve the series of contradictions brought by the difference between the owners.

**2. The "Law on Joint Ventures" stipulates: A joint venture shall take the form of a limited liability company. Because of the limited liability, the fundamental contradiction in the relationship between owners of a joint venture manifests itself in the form of an "international big pot."**

The law stipulates: A joint venture may not be turned into a stock company, and thus shares cannot be marketed or transferred. And, as a limited liability company, each shareholder's liability is limited to the amount of his investment, and he will not be held jointly and severally liable for paying off debts outstanding after the company declares bankruptcy. This may appear to reduce a joint venture's risk of going bankrupt or being annexed. Actually, it hinders the development of an enterprise's competitiveness. When a joint venture is not going well, it is impossible for either side to simply quit, even though both are unwilling to go on, and the Chinese shareholders, whose sense of responsibility for the investment is doubtful, often take a passive and perfunctory attitude toward company business because the company's success or failure is no concern of theirs personally.

**3. The contradiction between separation and combination of ownership and management.**

The separation of ownership from management is the inevitable trend of development in enterprise organization. The system in which the president of a joint venture assumes full responsibility under the leadership of the board of directors seems to have separated ownership from management. In fact, neither Chinese nor foreign investors have completely separated owners from managers. This has led to a divided state of management authority in joint ventures as a whole.

As both Chinese and foreign investors want to have more influence or control over a joint venture, the common practice is for the president and vice president(s) to be appointed respectively by the parent companies, and other senior managerial personnel also maintain connections with the respective parent companies. These managers have to serve "two masters." As a result, the management authority in a joint venture gets all split up. The so-called system of the president assuming full responsibility under the leadership of the board of directors, in fact, becomes a system of "joint council" of senior Chinese and foreign managers. Naturally there will be frictions and internal strife in the management. It is not at all surprising that presidents are replaced frequently, and that business is conducted on a short-term basis.

According to international practice, whether it is a limited liability company or a stock company, the core of management is the board of directors. Though the joint venture law stipulates that the board of directors is the organ of supreme authority of a joint venture and makes all the important decisions for it, for various reasons the board of directors has been "weakened." In fact, the board of directors of joint ventures has degenerated into a perfunctory shareholders meeting. The president has to take up a part of the board's responsibilities, in addition to his already heavy burden. Moreover, the inherent limitations of a foreigner as president and the problems caused by the "merging of ownership with management" have only worsened the president's difficulty, who is unable to do what he wants to do because he does not have the needed authority commensurate to his responsibility.

In the SEZ, most of the Chinese-foreign joint ventures are of the type which imports technology and goods from abroad and cooperates with units in the interior. Their directors live in different parts of the world, and it is no simple matter for them to meet just once or twice a year. As the policy-making body and the top executive organ of joint ventures, the board of directors has almost ceased to exist except in name. Trying to learn foreign enterprise management methods on the basis of the existing Chinese enterprise system, but failing to learn it thoroughly, the result can only be ludicrous.

**4. The law stipulates that the chairman of the board of a joint venture shall be designated by the Chinese side. Naturally the foreign side will not give up the right to designate the president. Judging by China's conditions, it is unlikely for a foreigner to become a successful president, and this has been proven by facts. The ideal arrangement is to have a Chinese president to help harmonize relations and reduce cost.**

A foreign president really has his limitations. The language barrier hampers communication and understanding; methods of thinking and working are different; and being a foreigner, he lacks understanding of China's conditions and policies. And, so far as cost is concerned, the salary for a foreign president alone constitutes a heavy burden to some less successful small- and medium-sized joint ventures, not to mention the translators hired to assist him.

Regardless of an enterprise's profit or loss, a foreign manager gets paid just the same. The burden of his high salary, which sharply increases the operating cost, is borne by the staff and workers whose wages are tied to profit. Obviously this is not fair for the employees. It is also not in keeping with the principle of "equality and mutual benefit" for the Chinese and foreign investors.

**5. In the transition from the old to the new system, a Chinese-foreign joint venture is still under the influence of the old system, and to a certain extent, has to "run a community" of its own, which increases its labor cost. Of course, it is good for the staff and workers, but it is really a headache for the foreign investors whose private property is involved. This contradiction between labor and capital is unavoidable under two different social systems and in the initial stage of socialism, and there is no easy, quick solution.**

In the Chinese-foreign joint ventures of the type which import technology and goods from abroad and cooperate with units in the interior, most of the workers and staff members come from the parent companies in the interior. Although they have signed contracts, they are, in fact, on loan to the new enterprise without cutting their ties with the parent companies. This is causing much trouble in personnel management for the joint ventures. Besides, these workers and staff members are indeed faced with many practical problems. It would be unrealistic to try keeping the joint ventures from "running a community" of their own.

**6. Joint ventures are internationally recognized as the most difficult kind of enterprises to manage, and the Chinese-foreign joint ventures are certainly no exception. In the course of a joint venture's development, joint management by both sides seems to be a necessary step in the early stage of the venture. From the viewpoint of the needs and goals of both sides, "joint management" is certainly the best form of management, but practice has shown that "joint management" is the most difficult form of management and that it has the highest rate of failure. Thus we have a contradiction in the way a joint venture should be managed.**

Even so, there are still quite a number of successful examples. The key to their success lies in the establishment within the joint ventures of a harmonious environment of mutual trust, respect, and cooperation.

Only when the senior management personnel, Chinese or foreign, are loyal to the joint venture and represent the goals and interests of the joint venture, instead of their respective parent companies, will it be possible for the joint venture to succeed. However, that is just an ideal. In reality, foreigners have their ugly side, and so have the Chinese. Both sides should foresee and be prepared for this contradiction. First of all, provisions can be made in the joint venture contract on the form of management; for example, management mainly by one side, contract management, and so on. The specific functions of the "joint management" can be divided between the two sides on a one-to-one basis, to reduce the number of things for which the two sides are jointly responsible. During the period of "joint management," when contradictions intensify and are difficult to resolve, it is necessary to shorten this transitional period and adopt other forms of management.

**7. The difference between the two sides in their investment goals is the basic factor leading to the conflict of their inherent interests and causing the "congenital deficiency" of joint ventures. This is a difficult contradiction which may last through the entire life of a joint venture, from choosing partners to the end of contract.**

One side pursues long-term goals, and the other side seeks only short-term profits; one side wants to get into the international market and earn more foreign exchange, and the other side wants to expand its share of the Chinese market, and so on. It is impossible for the two sides not to have different goals, but the difference should be minimized or made mutually complementary. Only in this way will a joint venture be able to take advantage of the strong points of both sides and succeed as a whole. If each side emphasizes and pursues only its own goals, both sides will end up in failure. Only by making the success of the joint venture the common goal, will each side ultimately achieve its own goals. This is the dialectics for handling this contradiction.

**8. The contradiction brought by conflicts of business cultures.**

A joint venture is not only a combination of capital, technology, and labor, but a combination of cultures. How cohesive this "cultural alloy" is depends on the gap between the Chinese and the foreign business cultures. In a joint venture, the influence of business cultures is invisible, and "clashes" are common. The results are alarming, manifest mainly in three ways.

**A. Contradiction between management ideas and methods.**

The writer investigated a large Chinese-foreign joint venture, an aluminum company, in Shenzhen. Its foreign president said that he wants to practice a "free" form of management in the company, but three Chinese vice presidents held that a powerful, centralized form of management should be adopted. Obviously these two ideas are totally incompatible.

**B. The low educational, technical, and ideological qualities of workers and staff members and their inadaptability.**

The educational and technical qualities of the Chinese staff members and workers in joint ventures are generally low. The "principle of pay according to ability," strictly followed in foreign countries, may not work in China. Moreover, workers and staff members tend to behave as if they are on "temporary jobs." The writer participated in a board meeting of a die-making company in Shenzhen and heard the foreign president talk to the Chinese directors about qualifications (of workers and staff members) no less than 10 times.

**C. The effectiveness of a manager is to a very large extent affected by his human environment.**

In a joint venture, the relationship between the manager and the staff and workers is not exactly that between an employer and employees. The manager's personnel authority is also affected by other factors, which further complicate his relations with other employees. For this the responsibility falls mainly on the Chinese side. To improve the human environment, the Chinese employees should take the initiative to help and care for the foreign manager and try to win his trust.

**9. The contradiction between international practice and China's actual conditions.**

Fundamentally speaking, this contradiction is caused by the conflict between the domestic and foreign economic management systems. The international practice for foreign investment is generally shaped in countries with a developed commodity economy. The present level of China's commodity economy can hardly meet the foreign investors' demands, and foreign enterprises cannot accept the control of a planned economy. This creates a peculiar contradiction and friction for joint ventures, and makes international practice impracticable.

The central government has clearly pointed out that in order to attract and bring in more foreign investments, it is necessary to enable foreign entrepreneurs to do business in China according to international practice. For this reason, great efforts should be made to improve the "soft environment" for foreign investors. In areas where foreign investments concentrate, it is necessary to create a small but complete and well-supported market system; that is, a small-scale "simulated climate" conducive to foreign investment.

**Beijing Develops Textiles for Export**

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[Text] Beijing, December 12 (XINHUA)—Beijing textile firms have increased the competitiveness of their products and exported them to more countries and regions by gearing their production to international markets.

Textile products earn 30 percent of the city's annual foreign exchange revenue from exports. Beijing's major textile exports include silk, cotton, flax, woollen and chemical fiber goods.

A spokesman of the Beijing Municipal Textile Corporation attributed the export success to the combination of traditional local dye techniques with fashionable designs and colors and the development of high-grade products.

Among the newly-developed products are real silk scarves that have been ordered by clients from Singapore, Hong Kong and other countries and regions.

The vinylon fiber produced by the Beijing Vinylon Plant can be used to replace asbestos as reinforcement material in cement goods. The fiber, with high ductility and other excellent physical and chemical qualities, has been exported to Switzerland and the Federal Republic of Germany and orders for the fiber are coming from other countries.

**Textile Exports To Reach \$13 Billion This Year**

*OW1512130689 Beijing XINHUA in English  
1233 GMT 15 Dec 89*

[Text] Beijing, December 15 (XINHUA)—China's textile exports are expected to reach \$13 billion this year, according to sources in the Ministry of Textile Industry.

The figure is 10 percent higher than that of last year, \$11.8 billion, said an official from the ministry.

From the beginning of this year, China's textile production has been troubled by a serious shortage of raw materials, funds and power. Despite the problems, the country's efforts have resulted in a bigger sale of textiles on the world market.

The textile industry is now China's biggest dollar earner. Textile exports surpassed petroleum in 1986.

Textiles now contribute one quarter of the country's total exports. China, the fifth largest textile exporting country, accounts for seven percent of the world's textile trade.

The official said China's textile industry should keep a tight rein on quality if the country is to maintain its present position in the world textile trade.

**Nonferrous Metals Export Figures Reported**

*OW2712121989 Beijing XINHUA in English  
0753 GMT 26 Dec 89*

[Text] Beijing, December 26 (XINHUA)—The China National Nonferrous Metals Industry Corporation has announced that its exports this year will bring \$450 million, twice as much as in 1985.

Fei Ziwen, the general manager of the corporation said his corporation has completed this year's state production plan 21 days ahead of schedule and is expecting to

produce 2.12 million tons of copper, aluminum, zinc and seven other metals, a four percent increase over last year's output.

The corporation has exported \$2 billion worth of non-ferrous metal products in the past five years, Fei said, adding that this year it has made new progress.

The corporation, he said, can now export more than 200 kinds of products and has established business relations with more than 1,000 companies in more than 70 countries.

Fei said the corporation is concentrating on developing high-tech products and new materials. Next year it will complete 15 major research projects to enlarge the range of its depth-processed products.

### Tibet Awaiting Resumption of Border Trade With India

90OH0248A Hong Kong WEN WEI PO in Chinese  
27 Dec 89 p 3

[Report on interview with Wei Jisen (7614 4764 2773), Deputy Director of the Tibetan Autonomous Region Foreign Economic Relations and Trade Department]

#### [Text] Tibet's Exports Have Distinctive National Features

Here is another typical case of a strictly business point of view. After Wei Jisen, deputy director of the Tibetan Foreign Economic Relations and Trade Department, had briefed me on the factors that are unfavorable to the expansion of Tibet's foreign trade, such as too long transport lines and too slow access to information, he then switched the conversation to the topic of the distinctive national features of Tibet's exports, and began to talk on and on about them. This Tibetan Autonomous Region official emphasized that foreign economic relations and trade are important aspects of Tibet's opening up to the outside world. He told me that Tibet's exports and their distinctive national and natural features were well received on the international market. He said that although other provinces also export pine mushrooms, foreign businessmen prefer those from Tibet because they are totally free from pollution. He also pointed out that Japanese businessmen will buy cashmere yarn without hesitation once they find out that it is manufactured in Ali, Tibet, because goat's wool from the Tibetan Plateau is so cold-resistant and naturally of the best quality.

#### Tibet Is Allowed To Keep All of the Foreign Exchange it Earns From Exports

Deputy Director Wei told me that Tibet's foreign trade has grown very quickly in recent years, that Tibet earned 75 percent more foreign exchange from exports in 1988 than in 1986, and that it is expected to earn almost \$50 million in foreign exchange from exports in 1989. He said that although this figure is very small, even to the

point of being insignificant in comparison to other provinces, it has quite clearly played a significant role in speeding up Tibet's development. He went on to say that Tibet's export trade is difficult because it receives neither state nor local financial subsidies. This responsible person from the Tibetan Foreign Economic Relations and Trade Department also said that, on the other hand, the state practices certain favorable policies toward Tibet which, in a certain sense, are unique. He continued as follows: For instance, being allowed to keep all of its import tariffs has greatly speeded up Tibet's exporting. Furthermore, Tibet keeps 100 percent of the foreign exchange it earns from foreign trade exports, the state exercises less control over Tibet's foreign trade, and Tibet has the basic decision-making power over all of its foreign trade. In addition, since much less control is exercised in Tibet over state-restricted import merchandise, Tibet is able to import a considerable amount of cars and household electrical appliances each year.

#### Tibet's Border Trade Has Increased by Almost 200 Percent Since 1986

I gave priority in this interview to asking Wei Jisen about Tibet's border trade. He replied that, "Tibet has a 4,000-km-long border, our border trade has expanded very quickly in recent years, and our 1989 border trade turnover is almost three times as much as in 1986, and more than our overseas trade." Deputy Director Wei Jisen continued as follows: "Tibet used to have a brisk border trade with India, Nepal, Bhutan, and Burma. Our border trade turnover with India had reached 100 million yuan RMB and both sides were trading dozens of varieties of merchandise by 1957. After Sino-India trade stopped in 1962, Tibet gradually began to shift its focus to trade with Nepal, which has grown very quickly in recent years and now also has a turnover of almost 100 million yuan RMB. Although most Sino-Nepal trade used to be an exchange of salt for grain, the varieties of merchandise that are now traded have expanded to almost all areas. Since the expansion of border trade between China and Nepal has brought increasing prosperity to the economies in their border areas and caused distinct changes in the lives of their peoples, their governments have both been very enthusiastic about it." Deputy Director Wei revealed that there are good prospects that border trade between China and Nepal will grow. He said that the major current problem that is preventing a speedup of Sino-Nepal trade is one of transportation, that the border points at which camphor-wood is traded are not very accessible because the roads between China and Nepal have long been out of repair, and that Tibet is now beginning to take steps to resolve the transportation problem by repairing old trade routes and building new ones.

#### Resumption of Sino-India Border Trade Is Expected

In reply to the question about when Sino-India border trade would be resumed, this Tibetan foreign trade official said that "We expect and want border trade between China and India to resume, and there is a good

possibility that it will. Yadong is the border point at which trade between China and India used to take place, and there are no obstacles to resumption of trade there. In short, we are ready and waiting for a response from India."

## ECONOMIC ZONES

### Hainan's Economic Relations With Hong Kong

90OH0195A Hong Kong CHING-CHI TAO-PAO /ECONOMIC REPORTER/ in Chinese.  
No 40, 9 Oct 89 p 30

[Article by Fu Fen (4569 1164): "The Major Task in Improving Hainan Province's Economy - Economic Relations With Hong Kong"]

[Text] In the latter part of July, Hainan economists held a symposium to discuss "Hainan - Hong Kong economic relations: present and future" and papers were collected on the subject of "Hainan - Hong Kong economic relations," a subject ripe for examination. The purpose of collecting the papers was to learn more lessons from Hong Kong's economic experience, speed up the construction of the Hainan Special Economic Zone (SEZ), and promote and strengthen Hainan - Hong Kong economic cooperation. In the essay that follows I will sum up the various ideas that were offered at the symposium and will put forth a few of my own in addition.

**The Current Situation** - If we disregard the fundamental differences in systems, then Hong Kong is undoubtedly the closest major economy to Hainan, and Hainan is currently the largest of Mainland China's SEZ's. It is inevitable that these two neighbors will develop economic relations.

However, up until now, although 80 percent of the capital in Hainan's nearly 700 three-capital-enterprises has come from Hong Kong investment; yet, most of these enterprises are small companies. But over 10,000 enterprises have now moved from Hong Kong to Guangdong where they have assimilated two million workers. And, from 1979 to 1987, Guangdong earned 1.43 billion dollars in labor wages from its export processing. In comparison, Hainan has been dwarfed by Guangdong in its ability to attract Hong Kong capital.

Why has Hainan failed to attract the big capitalists of Hong Kong? Aside from historical factors and Guangdong's superior (hard) investment environment and geographical position, foreign businessmen have pointed to the following to explain why Hainan has not been attractive for investment. First, Hainan's policies have been unstable and commitments have been broken. Second, government administration has been weak, links to the mainland have been precarious, and the result has been that foreign investment companies have found it difficult to get anything done. Third, there has been no capable investment advisory board, and foreign businesses have had no way to understand how things are

done in Hainan. Fourth, there have not been opportunities for fair competition, foreign investment companies have found it difficult to get approval for their plans, and both imports and exports have been bogged down with extreme restrictions.

For many years now Hong Kong production structures have enjoyed greater freedom in moving to Guangdong and carrying out their export activities from there. The result has been economic cooperation between Guangdong and Hong Kong. With Guangdong - Hong Kong economic cooperation enjoying the support of similar climates, geographical proximity, and popular support, Hainan has been left out in the cold with no way to compete.

Situated on the "periphery" of China's liberalized gold coast, Hainan has suffered geo-economic losses because of Guangdong. If we compare Hainan to the rest of Southeast Asia, we find that it falls short in many different ways. Huge sums of Hong Kong capital have already been invested in Southeast Asia, and as for investment by large investment organizations, one could say that wherever Hainan enjoys an investment strength Southeast Asia enjoys it too. Whether we talk of the economic system, government efficiency, or production conditions, Southeast Asian regions have a clear advantage over Hainan.

Looking at the economic situations in Hainan and Hong Kong, we find that Hainan's weaknesses are Hong Kong's strengths, and vice versa. The two areas are now in a position to assist each other economically. Or more precisely, they are in a position to begin assisting each other economically. I say this because not only is there little economic cooperation among the surface layers of the two, but even worse, the deep layer disparities preventing economic development are enormous. By "deep layers" I mean the economic systems, the systems of government, the stages of development, cultural traditions, and other such disparities. One is a special economic zone, governed by the socialist system, and in the early stages of social development. The other is a highly developed free economy, governed under the capitalist system with over a century of colonialist rule behind it. With such enormous differences in economic activity, governmental activity, and cultural norms, it would clearly be impossible for Hainan to simply follow Hong Kong's economic experience over the short run.

If "it is unrealistic for Hainan's economy to reach out to the world through Hong Kong," then, where is Hainan left if it "follows" the Hong Kong path?

**The Prescription** - With decades of economic development behind it, Hong Kong's social development has reached a high level. The society as a whole is quite modernized. The government has come up with a nice set of responses, and the free market mechanism has been perfected. These two points are the first things Hainan should learn from Hong Kong. The essence of

**Hong Kong government lies in noninterventionist economic policies, the establishment of effective administrative bodies, and the operation of a complete legal system. Hainan would benefit greatly if it could somehow apply these lessons. Right now the problem is that Hainan and Hong Kong have widely disparate social backgrounds, and though Hainan has recently been given certain preferences by the central government, it still lacks the conditions for fully absorbing the advanced lessons of Hong Kong. Thus, it is my opinion that Hainan must devote its attention to understanding the background and foundation for Hong Kong's practices, and if the deep layer disparities are not reduced to a minimum, the something unexpectedly bad could result much like when one who is physically weak suddenly receives a last great surge of strength.**

**Hainan is face to face with a serious challenge. In order to attract Hong Kong capital, Hainan must make its policies more stable, enlist the aid of Hong Kong in selecting items of basic production that will push it forward, establish and develop a stockmarket in Hainan by studying and imitating Hong Kong, and make it conceivable to raise foreign capital directly in the Hong Kong financial markets—all of these will take enormous efforts. However, it is only a pipe dream to discuss these things as long as certain of Hainan's hard and soft infrastructures remain unimproved. Thus, many specialists and scholars have pointed out that improving the soft investment environment is imperative in order to further Hainan - Hong Kong cooperation. Hainan must formulate the various laws and regulations dealing with the introduction of Hong Kong capital, it must strengthen preferential policies with legal backing, it must establish an administrative organ with plenary power over Hong Kong capital investment, it must raise the quality and working efficiency of civil servants, it must put an end to excess bureaucracy, and it must vigorously promote honest government and social order.**

**The Future:** In recent years we have seen two great waves of Hainan - Hong Kong economic relations. The first wave was from 1983 to 1988 as Hainan was about to become a province. Hainan imported large quantities of goods from Hong Kong and official trade saw developments. The second great wave was after Hainan became a province. Hong Kong entrepreneurs streamed into Hainan to invest and set up businesses, and Hainan enterprises sent huge exports to Hong Kong. This was a change from the past when Hainan simply imported Hong Kong goods. Now trade was going in two directions. Overall the economic relations between Hainan and Hong Kong are a low level sort of cooperation. This is primarily shown by Hong Kong investment going mainly to certain key enterprises like trade and services where demand is high and profits are quick and secure.

This phenomenon is not all that surprising as Hainan has just become province. But, as Hainan enters the middle and latter stages of planned development economic relations with Hong Kong will undoubtedly enter greater depths. Geographical proximity, mutual assistance with

capital sources, labor, technology, funds, and acceptability of Hong Kong's culture to the traditions of Hainan Islanders—all of these things represent the auspicious foundations for better relations. It is for this reason that I feel that there is a bright future for Hainan - Hong Kong economic relations. Moreover, something unique may even emerge out of their relations - namely, they may both develop diversified cooperation. The focal points will not be trade or "the three forms of import processing and compensation trade," but rather the keys will be development of industrial production, tourism, building construction, and developmental agriculture.

I am sure that with improvements in the Hainan investment environment that has heretofore made one hesitate and in the work efficiency that has heretofore made one depressed; in particular, as the preferential policies of the central government become operational in a local and stable manner, economic relations between Hainan and Hong Kong may very well enter into a state of matrimony where the sweet outweighs the sour.

#### **Xiamen Joint Ventures Introduce Contract System**

*90OH0210C Hong Kong CHING-CHI TAO-PAO /ECONOMIC REPORTER/ in Chinese  
No 44, 6 Nov 89 p 27*

[Article by Wu Chuanying (0702 0278 5391): "Contracted Management—A New Style of Management for Chinese-foreign Joint Ventures in Xiamen"]

[Text] The total number of Chinese-foreign cooperative enterprises (including joint-investment and joint-management enterprises, abbreviated as joint ventures hereafter) in the Xiamen Special Economic Zone (SEZ) exceeded 230 as of the end of July 1989. Since the state adopted various preferential policies for the enterprises of three capital sources in the SEZ in addition to the superior geographical environment, abundant labor resources, and low wages of the SEZ, the overwhelming majority of joint ventures have achieved good economic returns in the past few years and boast a bright future in development. However, there are also a few enterprises which have suffered losses year after year due to mismanagement and are about to dissolve. In order to get out of their difficult positions and reverse the deficit situation, 13 of these enterprises have introduced the new management style of contracted management in recent years. Among them, nine are contracted to foreign investors, three are contracted to Chinese investors, and one is contracted in turn to different shareholders. Their concrete method is as follows: Under the prerequisite that business scale, management period, and investment rights remain the same, the board of directors generally act as the one that issues the contract and either side of shareholders acts as the contractor. The contracted relation is defined mostly in the form of a contract, but a few enterprises replace it with the minute or resolution of the

board meeting. The contract period is generally three years. The longest is five years and the shortest is one year.

The contracting method generally includes the following five kinds:

1. The contractor delivers profits to the contract awarder according to a progressive profit base, retains all excessive profits, makes up insufficient profits, and assumes responsibility for all losses. For instance, the Zhongxing Auto Repair and Service Center is contracted to its foreign shareholder. The profit base of the contract is 200,000 yuan for the first year and 20 percent higher every year from then.

2. The contractor delivers profits to the contract awarder according to a fixed profit base, divides excessive profits between them according to a set percentage, makes up insufficient profits, and assumes responsibility for all losses. For instance, the Bailihao Toy Industry Company, Ltd. is contracted to its foreign shareholder for five years. The contractor delivers a fixed profit base of 250,000 yuan a year. Excessive profit above 50,000 yuan will be divided between the two sides according to a 3:7 ratio with the contractor receiving 70 percent. Excessive profit under 50,000 yuan will be divided equally between the two sides.

3. The enterprise is contracted to one shareholder by another shareholder. The contractor delivers profits to the other shareholder according to a profit base which increases every year, similar to the first method. For instance, the Baileyuan Company, Ltd. was contracted to its foreign shareholder in February 1988. In the first year, the foreign shareholder should deliver a fixed profit base of 200,000 yuan to the Chinese shareholder.

4. The contractor contracts the enterprise from the contract awarder according to a progressive profit base and divides excessive profits between the two according to a 4:6 ratio with the contractor receiving 60 percent. For instance, the Huanqiu Knitting Company, Ltd. is contracted to its foreign shareholder for three years. The profit base of the contract is 250,000 yuan for the first year, 300,000 yuan for the second year, and 400,000 yuan for the third year. To guarantee the fulfillment of the contract, the contract stipulates that the contractor should provide 250,000 yuan worth of property as pledge and 25,000 yuan as security deposit.

5. The contractor contracts the enterprise to a subcontractor who delivers profits according to a progressive profit base, retains all excessive profits, and assumes full responsibility for all losses. For instance, the Hongtai Industry and Trade Company, Ltd. was contracted by the board of directors to the Chinese shareholder who then subcontracted it to internal staff members and workers. Excessive profits are divided between the contractor and the subcontractor according to a 3:7 ratio with the sub-contractor receiving 70 percent. However, the subcontractor must give the contractor 10,000 cash as risk pledge.

This practice—some joint ventures of the Xiamen SEZ adopting the contracted management method to get out of their difficult positions—has indeed enabled these enterprises to change their outlook rapidly, brought about vitality, and gradually turned deficits into profits. Currently this method is likely to gain popularity in joint ventures because:

—After the implementation of contracted management, enterprise's administrative and managerial power is more concentrated, which is conducive to prompt decisionmaking and effective management. For instance, after the Southeast Alluminum Company, Ltd. implemented contracted management in 1988, the contractor was able to make a prompt decision in accordance with the supply situation of international market and purchased 2,000 tons of alluminum products in a timely manner, thus avoiding losses caused by the price rise of alluminum products.

—After the implementation of contracted management, the relations between enterprise's responsibility, right, and interest become clearer and the contractor can conduct effective readjustment and management of its staff and workers in accordance with the actual needs of production and management. For instance, after the Huanqiu Knitting Company, Ltd. was contracted to the foreign shareholder, the enterprise's managerial personnel was reduced by half. After the Hongtai Industry and Trade Company, Ltd. began the contract system, its administrative personnel was reduced from 28 to 6, saving a substantial amount of nonproductive expenditures, reducing the cost of production, and raising the profit level. After the Bailihao Toy Industry Company, Ltd. was contracted to the foreign shareholder, the contractor hired managerial personnel through examination, thus further raising the quality of managerial personnel and enterprise's vitality.

—After the implementation of contracted management, enterprise's economic returns increase markedly. For instance, in the first year of its contract, the Huanqiu Knitting Company, Ltd. turned 120,000 yuan of losses in the previous year into 370,000 yuan of profits, and workers' wage also increased 43 percent. The Zhongxing Auto Repair and Service Center originally had over 300,000 yuan of deficits. After it practiced the contract system in 1988, it immediately turned losses into profits and made over 100,000 yuan of profits. The Shanghai Western-style Restaurant opened in 1985. In the first 14 months, it made only 5,000 yuan of profits. Beginning in June 1986, its shareholders took turns in contracting this restaurant. During the first three years of contract, it made 110,000 yuan in the first year, 190,000 yuan in the second year, and 180,000 yuan in the third year. After the Bailihao Toy Industry Company, Ltd. implemented the contract system in 1988, it made over 300,000 yuan of profits. In the first six months of 1989, it made another 400,000 yuan of profits.

Everything has two sides. True, some difficulties and problems have risen after joint ventures implemented contracted management. First, after the implementation of contracted management, the contractor's decision-making power in administration and management is still restricted to a certain degree and cannot be fully exercised. For instance, some enterprise contractors want to raise workers' wages to arouse their production and labor enthusiasm, but the departments concerned do not approve for fear of creating a wage race among other enterprises of three capital sources.

Second, after foreign shareholders contract the enterprise, they want to manage it according to international practices, but in reality they have to do things according to domestic practices and cannot fully utilize their administrative and management skills.

Third, the profit base of contract is generally on the low side, because most enterprises resorting to contracted management used to be poorly-managed or money-losing enterprises whose demand on the profit base of contract is not high. Contractors usually can easily satisfy the profit base of their contract and most of them can make 50 percent more in excessive profits.

Fourth, some contractors play tricks. For instance, they deliberately lower the amount of excessive profits and cause losses to the contract awarders by inflating the purchasing prices of raw materials and lowering the sales prices of products in their reports.

5. Some enterprises are contracted according to the minutes or resolutions of board meetings without the signing of a contract. As a result, contractors assume responsibility for profits but not losses.

The above issues need to be studied and further improved by the departments concerned.

## POPULATION

### Foreign Experts View Family Planning Policy

OW1001031090 Beijing XINHUA Domestic Service in Chinese 0722 GMT 28 Dec 89

[Article by ZHONGGUO RENKOU BAO (CHINESE POPULATION NEWSPAPER) reporter Huang Jialiang (7806 1367 0081) and XINHUA reporter Xu Bo (1776 3134); "First Advice" of the 1990s—Officials of the International Federation of Family Planning on China's Population Issue"]

[Excerpts] Chengdu, 28 Dec (XINHUA)—At a time when the gate of the last decade of this century is about to open, the following remarks can be seen as a "first advice".

"China is a sovereign state and should carry out its own independent policy on family planning. This is a matter no other nation or international organization has the right to interfere with or fragrantly criticize. As a matter

of fact, China achieved universally acknowledged success since its introduction of a comprehensive family planning policy in the 1970's. Nevertheless, China must weather a much tougher time than ever before to fulfill the population plan for the 1990's!"

These remarks were made by Dr. Tan-Bu [name as published], vice chairman of the council of the International Federation of Family Planning, and Mr. Ba-Lan [name as published], executive director of the Federation for the Asian-Pacific region, during an recent interview with reporters in Chengdu.

### Any Man of Insight Will Not Choose To Do Otherwise

Ba-Lan held that the miracle China created—sustaining such a large population on limited arable land—is a most resounding achievement that greatly inspired numerous economists. However, the population was also a severe headache for China. In Sichuan, the most populous province of China, the average area of cultivated land per person is less than 1 mu. This demonstrates the staggering high rate of land utilization in China's rural areas. Ba-Lan pointed out: There is always a critical value [lin jie zhi 5259 3954 0237] in the interdependence between people and the environment. China is approaching that critical value with its huge population. As a Third World developing nation struggling toward a moderately well-off standard of living, China will undoubtedly find its biggest obstacle in its huge population.

Tan-Bu, who visited China many times, said that those who attack China's population policy do not understand its national situation. Any man of insight will not choose to do otherwise, or else it would mean an end to China's future. He agreed with Ba-Lan's view that China based its decision on the policy of birth control, the methods of carrying out the family planning work, and birth quotas on its economic situation, social welfare system, and environment. This is China's internal affair and no other nation or international organization should willfully interfere or criticize.

### The Past Saw Great Achievement, the Future Will See Great Hardship

Tan-Bu and Ba-Lan highly praised the fact that China was able to reduce the birth rate by more than 200 million births by the end of 1988, thanks to the comprehensive implementation of family planning since the 1970's. This is a remarkable accomplishment inasmuch as it was achieved in merely 10 years, which would have been unimaginable in any other nation. Tan-Bu and Ba-Lan stressed that the past efforts for population control and the future population goal were complementary. The 1990 decade will be critical for China in its efforts to reach the end-of-the-century goal of the population plan. They noticed that the Chinese Government set the target at around 1.2 billion. But according to warnings from the government news agency, if the 1988 birth rate continues, the figure will top 1.3 billion [passage omitted]

**The Key Lies in the People's Awareness and Grass-Roots Work**

Can China curb the trend of the increasing number of births in the 1990s, which China entered with its more than 1.1 billion people? The two experts believe the key is in the people's awareness of population control and in grass-roots work. [passage omitted]

Ba-Lan said the International Federation of Family Planning strongly encourages and supports grass-roots units in China to help government work on birth control propaganda, education, and services. The federation will provide its planned aid of \$930,000 for China in 1990. [passage omitted]

**TRANSPORTATION**

**Navigation To Improve Between Hainan, Coast**

*HK2712073689 Beijing ZHONGGUO XINWEN SHE in Chinese 0423 GMT 18 Dec 89*

[Report: "The Navigation Conditions in the Qiongzhou Strait Will Be Thoroughly Improved"]

[Text] Beijing, 18 Dec (ZHONGGUO XINWEN SHE)—People from the China Navigation Society said that the bad navigation conditions in the Qiongzhou strait between Hainan and the mainland will be thoroughly improved. A plan on the large-scale construction of basic facilities for navigation will be put into effect.

The Qiongzhou strait, 60 km long and 15 km wide, is not only the main channel between Hainan and the mainland but also a shortcut from various ports in Guangxi and Beibu gulf to Zhanjiang, Guangzhou, and Hong Kong. The waterway in this strait has not been fully utilized because there are many shoals and hydrometeorological conditions are bad.

Not long ago some Chinese waterway experts, engineers, and technicians conducted a survey in the Qiongzhou strait, discussed the arrangement and establishment of navigation marks in the strait, and proposed separate navigation routes for the strait.

Vessels in the strait are increasing following the construction of the Hainan Special Economic Zone and the operation of oil fields in Beibu gulf. The existing facilities can no longer cope with the navigation safety of vessels. Therefore the relevant traffic safety supervisory department has decided to accept these experts' proposal, to improve the navigation conditions in the eastern section of the strait, to open a waterway in the northern section, and to build lighthouses along the northern section's shoals. Lightships will be located in the northern and central waterways, flexible lightposts will be installed in some waterways, navigation marks in its main waterway will be changed, and important navigation marks will be equipped with radar responders. This plan will be put into effect in a few years.

**Transport Quota Fulfilled Ahead of Schedule**

*OW2112220689 Beijing XINHUA in English 1200 GMT 21 Dec 89*

[Text] Beijing, December 21 (XINHUA)—China's railways had handled 1.43 billion tons of cargo by today, fulfilling the state's quota ten days ahead of schedule.

The country's 3.2 million railway workers have been working hard to ensure the transport of major cargoes such as coal, chemical fertilizers, salt, ores, cement, timber and metallurgical materials.

The China railway network of 54 million kilometers is expected to handle 1.46 billion tons of cargo by the end of the year.

**Third Hong-Kong-Mainland Border Crossing Opens**

*OW2612023289 Beijing XINHUA in English 0137 GMT 26 Dec 89*

[Text] Hong Kong, December 26 (XINHUA)—The third vehicular Hong Kong-mainland border crossing at Lok Ma Chau interchange opened on 29 December. [date as received]

The length of the border link from the Lok Ma Chau interchange to the south bank of Shenzhen River is about 1.8 kilometers. Initially the crossing will be restricted to goods vehicles and operate from 9 am to 5 pm daily.

A government spokesman said here yesterday that the construction of the crossing is a joint effort by Hong Kong and Shenzhen authorities with each side building their respective half of the bridge.

The construction of the border crossing by the Hong Kong Highways Department has been implemented in two stages. Works started in December 1985.

The first stage costing H.K.\$260 million (U.S.\$33.33 million) included the construction of the eastern bridge, a dual two-lane highway linking with the new territories circular road, the foundation for the western bridge, a border complex area, and two vehicle holding areas, each with a capacity to hold 370 goods vehicles.

The second stage which comprises the superstructure for the western bridge, will commence next month and is scheduled for completion in mid-1991 at a cost of H.K.\$30 million s (\$U.S.3.85 million), he said.

The other two existing vehicular crossings are at Man Kam To and Sha Tau Kok.

**New Port on Shenzhen-Hong Kong Border To Open**

*OW2612231089 Beijing XINHUA in English 1547 GMT 26 Dec 89*

[Text] Shenzhen, December 26 (XINHUA)—A new port on the border between Shenzhen and Hong Kong will be

partially opened for freight transport beginning December 29, according to the port office under the Shenzhen City People's Government.

The partial opening of the Huanggang Port, the biggest highway port in China, was approved by the port leading group under the State Council, China's highest governing body, after a recent project assessment.

Huanggang is the starting point of the Shenzhen-Guangzhou-Zhuhai Expressway and a major pass between the mainland and Hong Kong.

For the time being, the port can accommodate about 3,000 motor vehicles a day.

It is learnt that when in full operation, the port will be able to accommodate 50,000 passengers and 50,000 motor vehicles daily.

#### **Second Line of Hengyang-Guangzhou Railroad Built**

*HK3012031589 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 27 Dec 89*

[Text] The 500-km-long second line of the Hengyang-Guangzhou Railroad, whose construction had lasted 12 years, successfully passed the state examination in Guangzhou today.

The second line of the Hengyang-Guangzhou Railroad was opened to traffic on 16 December 1988. As a result, the volume of cargo transportation in the Guangzhou area and on the Guangzhou-Shenzhen Railroad has increased by a large margin this year. An additional 100 tons of coal, grain, oil, fertilizer, farm and sideline products have been transported in the Guangzhou area this year.

The experts participating the state examination of the second line of the Hengyang-Guangzhou Railroad believed that the construction of the second line of the Hengyang-Guangzhou Railroad has met the state technological requirements. They announced that the second line of the Hengyang-Guangzhou Railroad will be officially handed over to the Guangzhou Railroad Bureau for management as of 1 January 1990.

#### **New Rail Line Links Beijing With Guangzhou**

*OW2712134689 Beijing XINHUA in English 1254 GMT 27 Dec 89*

[Text] Guangzhou, December 27 (XINHUA)—A new railway line between Guangzhou and Hengyang was officially put into operation here today, completely double-tracking China's longest railway line, linking Beijing with this southern city.

As a major project in the country's Seventh 5-Year Plan (1986-1990), the new 526-km double-tracked railway line project cost the state a total of 3.2 billion yuan and was completed in November 1988.

In the past year of trial operation no major accidents have been reported, not even in the Dayaoshan tunnel, the tenth longest of its kind in the world.

Automatic switches and electric locomotives have increased the line's haulage capacity of each train to 3,500 tons from 2,800 tons last year.

The line can accommodate 47 trains each day and the annual cargo transportation capacity has jumped 17.6 percent to total 22 million tons, greatly easing the bottleneck in the southern part of the Beijing-Guangzhou railway.

Rated by experts as one of the best railway projects in design, construction and equipment, the line is also expected to play a major role in promoting the economic growth and foreign trade of Hunan and Guangdong Provinces.

#### **Railroad Section in Guizhou Electrified**

*HK30120424789 Guiyang Guizhou Provincial Service in Mandarin 2300 GMT 28 Dec 89*

[Text] At a time when the New Year is approaching, the Liupanshui-Xuanwei Section of the Guangxi-Kunming Railroad was electrified yesterday.

The electrification of the Liupanshui-Xuanwei Section of the Guangxi-Kunming Railroad is one of the state's key projects. The completion of the project will greatly increase the transportation capacity of the Guangxi-Kunming Railroad. Without increasing the number of cargo trains, the daily transportation capacity of the Guangxi-Kunming Railroad is expected to increase by 3,200 tons. However, once the number of cargo trains is increased, the daily transportation capacity of the Guangxi-Kunming Railroad is expected to increase more than threefold.

#### **Qinhuangdao Coal Terminal Begins Trial Operation**

*OW2912214389 Beijing XINHUA in English 1548 GMT 29 Dec 89*

[Text] Qinhuangdao, December 29 (XINHUA)—The third-phase construction of a modern coal terminal at the port of Qinhuangdao passed state assessment and was put into trial operation here today.

A key construction project for the Seventh 5-Year Plan (1986-1990), it has two 35,000 dwt and one 50,000 dwt berths, with a combined annual handling capacity of 30 million tons. Official operation is expected to start May 1, 1990.

The terminal, in Hebei Province, handles coal being shipped from Shanxi Province and the Inner Mongolia Autonomous Region to the southern parts of China and for export.

### Liaoning's Dalian Port Handles Over 50 Million Tons of Cargo

OW3112002689 Beijing XINHUA in English  
1508 GMT 30 Dec 89

[Text] Dalian, December 30 (XINHUA)—Dalian Port has handled 50.7 million tons of cargo so far this year.

This is the first time for the 90-year-old port to surpass the actual level of 50 million tons. Its profits have also exceeded [word indistinct] million yuan for the first time.

The port also opened 10 container vessel routes to the United States, Canada, northwest Europe, Japan and Hong Kong this year. The number of its international cargo voyages has increased from nine to 13 a month.

The port has also streamlined management and cooperated with railways, highways and other transportation departments to deliver cargo on time.

### First Class Highway Opens in Shaanxi

OW3012234689 Beijing XINHUA in English  
1455 GMT 30 Dec 89

[Text] Xian, December 30 (XINHUA)—A first-class highway, 34.46 km in length, was officially opened to traffic here today.

This is the first highway built with a World Bank loan in China. It links the northern outskirts of Xian, capital of Shaanxi Province, with Sanyuan County.

It is designed to accommodate 16,000 motor vehicles a day.

### Longest Dock Passes Appraisal in Shandong

OW3012123389 Beijing XINHUA in English  
0915 GMT 30 Dec 89

[Text] Yantai, December 30 (XINHUA)—Xigangci Dock at Yantai Port in Shandong Province was recently approved by the Ministry of Communications.

The 1,236-meter dock, the longest of its kind in the country, can simultaneously accommodate six 10,000 dwt vessels.

The comprehensive, multi-functional dock, has berths for nonmetallic materials, general goods, chemicals, wood and coal.

### Tianjin Port Handles Increase of 14.7 Percent

OW0101131190 Beijing XINHUA in English  
1234 GMT 1 Jan 90

[Text] Tianjin, January 1 (XINHUA)—Tianjin port, the largest sea port in north China, handled 24.2 million tons of cargo last year, a 14.7 percent increase over 1988 and 21 percent higher than the planned quota.

Tianjin possesses 41 freight berths including 24 deep-water berths.

### AGRICULTURE

#### State Council Notice on Pig Production, Pork Supply

OW1012214489 Beijing XINHUA Domestic Service in Chinese 0835 GMT 9 Dec 89

[Text] Beijing, 9 Dec (XINHUA)—In connection with the transmittal of a report prepared by the Ministry of Commerce, the Ministry of Agriculture, and the Ministry of Finance, the State Council General Office recently issued a circular that stresses the need to stabilize pig production and ensure pork supply.

The State Council General Office points out in the circular that stabilizing pig production and ensuring pork supply not only are essential for encouraging the peasants to raise pigs, but also are essential for stabilizing the economy and the market and ensuring the progress of economic retrenchment. It says: All regions and relevant departments must consider them to be important projects that must be accomplished earnestly. The output of corn has decreased in some regions this year and this will adversely affect pig production. All localities must stabilize pig raising policies and take precautionary measures against decrease in pig production. The requirements and measures set forth in the report must be earnestly implemented in combination with the actual situation in various regions and departments.

In their report, the Ministry of Commerce, the Ministry of Agriculture, and the Ministry of Finance express the following views:

1. Support pig production by stabilizing pig raising policies. All central and local government policies and measures for encouraging and supporting pig production should remain unchanged. To preserve pig raisers' enthusiasm, all localities should maintain the policies that pig raising should be linked with the supply of feed grain, use of feed growing land, and the supply of chemical fertilizer, and that part of revenues from industrial production should be used to subsidize pig raising. The money the state has been spending each year since 1987 to subsidize the production of 3 billion kg of feed grain needed for supporting meat, poultry, and egg production and pork supply should continue to be spent in 1990. In 1990 the state should continue to earmark special budgets for building bases for developing commercial, lean-meat pigs. While encouraging individual households to raise pigs, active efforts should be made to support pig raising in pig bases, large pig farms, and pig raising households.

2. Broadly explore feed resources to ensure feed supply. In an effort to increase feed supply, all provinces (regions) in southern China should expand production of

feed grain, green fodder, and coarse fodder on winter fallow land and water surfaces. Feed industries should ensure feed supply by holding down profits, improving feed quality, reducing production cost, and striving to increase output. Efforts should be made to redistribute, allocate, and deliver feed strains between feed grain producing regions, and proper arrangements should be made for the delivery of corn to pig raising provinces in southern China.

3. Popularize science and technology to upgrade pig raising techniques. In a way appropriate to the local situation, all localities should set up farms to demonstrate how to raise pigs with scientific management to set examples for the vast number of pig raisers and to encourage them to adopt modern technology. To increase the inventory of pigs to be slaughtered, great efforts should be made to popularize fine pig strains, mixed feed, and standardized management. Earnest efforts should be made to prevent epidemics to reduce death rates. All provinces (re: 30s) in northern China must actively remodel their pig houses and gradually popularize the technology of raising pigs in hothouses.

4. Provide better guidance for pig prices and improve the market order. All localities should maintain rational price relations between pigs and grain. In accordance with the situation in different localities, the guiding pig purchasing prices next year should range from 1.5 to 1.55. The guiding purchasing prices for lean-meat pigs should be higher than those for ordinary pigs. The money needed for purchasing pigs should be ready so that no more "IOU slips" will be issued. All localities should improve the management of the urban and rural meat markets to ensure sound development of multi-channel trade, stabilize the pork market, and safeguard the interests of producers, consumers, and traders.

5. State-operated commercial businesses should give full scope to their dominant role to ensure pork reserves and allocation. In accordance with the local situation, all provinces, autonomous regions, municipalities directly under the central government, and large- and medium-sized cities should establish and improve their pork reserve system so that pork will be kept in storage during the peak production season to ensure supply in the off season. Major consuming regions should now increase their inventory to support production by production areas. Guided and supported by local governments, state-operated food enterprises should purchase or market pigs to adjust the supply and stabilize market prices. To increase market supply, consumers should be guided to adjust their meat consumption pattern so that they will consume more of the types of meat that need less feed grain to produce.

**Fujian Officials Urge Deepening of Rural Reform**  
OWD501201690 Fuzhou FUJIAN RIBAO in Chinese  
12 Dec 89 p 1

[Text] The provincial agricultural commission convened a forum of directors of prefectural, city, and county

agricultural commissions in Zhangzhou City the other day to discuss ways of deepening rural reforms.

The participants in the forum maintained that the focus of reform next year should be to stabilize the household responsibility system with remuneration linked to output, further improve cooperative organizations at township and village levels, and continue to improve the two-tier management system. Specifics are as follows:

—Improve contract management. Continued efforts should be made to standardize rural contracts, strengthen collectives' rights over the use of lands, and gradually institutionalize the signing, modification, subcontracting, and transfer of contracts as well as the mediation and arbitration of contract disputes. At the same time, village-level economic cooperative organizations in economically developed regions may, on the precondition of respecting the people's wishes, appropriately readjust the peasants' contracted lands. In localities where conditions allow, it is permissible to promote operations on a rational scale by allowing some responsibility plots to be concentrated in the hands of expert farmers.

—Strengthen the collectives' economic strength. The majority of village-level economic collectives in our province lack economic strength and are weak in unified management. For some time to come, we should strengthen the economic collectives, as they are an important component of rural reform and achieve a breakthrough. A fundamental way of doing this is to organize the development of resources and set up collective enterprises.

—Strengthen the service network. At present, about one-third of the village-level cooperatives in our province still do not offer production-related services. This has hampered the development of family-run operations. Efforts should be made over this winter through next spring to gradually consolidate service networks at township and village levels and set up comprehensive service networks in villages to coordinate and organize technical services for the entire process of agricultural production before, during, and after the farming season. Villages also must set up special service organizations to fully utilize the superiority of collectives and make the cooperative economic organizations more attractive.

—Do a good job in running cooperative funds. To ensure a stable source of agricultural funding, governments at all levels must, in addition to setting up agricultural funds, also help village-level cooperative organizations set up cooperative funds so as to develop, step by step, a mechanism for them to accumulate and readjust rural capital.

### Hunan Anticipates Good Harvest This Year

HK2512044289 Changsha Hunan Provincial Service in Mandarin 2300 GMT 22 Dec 89

[Excerpts] According to a recent survey of the provincial Statistics Bureau, a fairly good harvest in agricultural production is anticipated in our province this year, putting an end to the stagnation of grain production in the past five years running.

The province's total grain output is estimated to reach 26.7 billion kg, 1.139 billion kg more than last year. The gross output of all major agricultural products, except ramie and tea, will be higher than the previous year.

A survey of the provincial Forestry Department demonstrates that the afforestation area in the province this year is expected to top 5.397 million mu, an increase of more than 570,000 mu over the previous year. [passage omitted] The total of live pigs is expected to come to 28.4 million heads, 260,000 heads more than last year. [passage omitted] The gross output of aquatic product is estimated to exceed 490,000 tons, increasing more than 27,000 tons over the previous year.

### Jilin Animal Husbandry Forum Held

SK2712020789 Changchun Jilin Provincial Service in Mandarin 2200 GMT 24 Dec 89

[Text] The provincial government held a forum on animal husbandry work in Changchun from 20 to 23 December. Governor Wang Zhongyu and Vice Governor Hui Liangyu conscientiously summed up experiences in the activities of animal husbandry throughout the year. They analyzed the current situation in animal husbandry, together with responsible comrades of the prefectural, city, and autonomous prefectural governments and of the animal husbandry departments, animal husbandry experts, and responsible comrades of provincial-level departments concerned. Also, they put forward guidelines for developing the province's animal husbandry during next year, namely, consolidation, improvement, and development.

Comrades attending the forum held that through carrying out the activities of animal husbandry in the province this year, historical breakthroughs were made in animal husbandry and a good foundation was laid for the future development of animal husbandry. However, we must not be too optimistic. We should try in every possible way to consolidate the achievements made in animal husbandry during the year and strive to achieve development and improvement in the course of consolidation. In this connection, it is necessary to prevent fluctuations, stabilize large-scale production, rationally readjust the structure of animal husbandry, rely on science and technology to vitalize animal husbandry, and implement all animal husbandry policies to the letter. Next year, the provincial authorities will continue to allocate 400 million kg average-priced corn as raw materials for animal feed and the distribution quota will be set in a unified manner by the provincial animal feed

department. The grain departments should guarantee the supply of corn in line with the plan and should set aside some government-priced dregs of rice and wheat brands for the animal feed industry. Areas where the proportion of animal husbandry is fairly large should not use less than 30 percent of the agriculture-oriented funds for animal husbandry. Next year, the provincial authorities will continue to allocate 10 million yuan of working funds. All localities should also allocate a certain amount of money to support animal husbandry. It is necessary to maintain a certain level in extending credit funds for animal husbandry. Next year, the provincial authorities will continue to allocate 25 million yuan of agricultural development funds to support animal husbandry development. The province and various cities and counties should allocate a certain amount of funds for popularizing technology in an effort to strengthen scientific and technological popularization work. Protective policies will be implemented in the production of breeding stock and a fixed amount of government-priced animal feed will be supplied to the livestock raisers. The policy of higher price for quality wool and the policy of using milk to exchange for animal feed must not be changed at will. The prices of milk should be readjusted appropriately. The price tag for every kg of hog purchased by the state commercial departments is 3.6 yuan. We must do a good job in social service, strengthen leadership over animal husbandry, and coordinate with all departments to render service before, during, and after production in an effort to achieve a sound development in animal husbandry.

On 23 December, on behalf of the provincial government, Vice Governor Hui Liangyu signed letters of responsibilities for management of 1990 animal husbandry work with responsible comrades of various city, prefectural, and autonomous prefectural governments. Responsible comrades of the provincial Animal Husbandry Bureau also signed letters of responsibilities with responsible comrades of various city, prefectural, and autonomous prefectural animal husbandry departments.

### Heilongjiang Grain Purchases Reported

SK2712040389 Harbin Heilongjiang Provincial Service in Mandarin 1000 GMT 26 Dec 89

[Summary] As of 26 December, Heilongjiang Province had purchased and stored more than 4.5 billion kg of grain, accounting for 85.3 percent of the contract grain purchasing task, an increase of 1 billion kg over the same period of last year.

### Beijing Vegetable Markets Report Abundance of Produce

OW2912181289 Beijing XINHUA in English 1500 GMT 29 Dec 89

[Text] Beijing, December 29 (XINHUA)—There is no shortage of vegetables these days in Beijing.

In the Xidan grocery, in the western part of the city proper, racks are piled with fresh tomatoes, peppers, cucumbers, beans, eggplants and carrots, as well as pork, red meat, poultry and seafood. Live chickens and geese are also in stock.

According to Liu Yanming, general manager of the grocery, the daily business volume has reached 200,000 yuan (about \$43,000), 25 percent more than in the same period of last year.

He estimated that more business will be done during the coming new year and the traditional Chinese lunar new year, which falls on January 27, 1990.

The Hongqiao farmers' market in the southern part of the capital has had 80,000 to 90,000 customers a day since last November, 20,000 to 30,000 more than previously.

This year, the turnover of the market has topped 57 million yuan (about \$12.1 million).

Meanwhile, vegetable prices have dropped drastically this year due to bumper vegetable harvests.

Statistics from the Xidan grocery show that this year's average vegetable price is 10 percent lower than last year's.

### Hainan Plans To Transform Low-Yield Land

OB2912182189 Beijing XINHUA in English  
1046 GMT 29 Dec 89

[Text] Beijing, December 29 (XINHUA)—South China's Hainan Province plans to transform 100,000 hectares of low-yielding land over the next three years.

The central bank and local banks have decided to invest 270 million yuan (about \$57 million) in the project.

The province has been listed as one of the important provinces for agricultural development this year by the central government.

### Shandong Ranks First in Export of Cotton

SK0201043490 Jinan Shandong Provincial Service in Mandarin 2300 GMT 30 Dec 89

[Summary] As of 30 December, Shandong Province had exported 100,000 tons of cotton, earning 140 million yuan in foreign exchange. In this way, it overfulfilled its annual plan and ranked first in the country in terms of the exported amount.

### Zhang Kuiliang's View on Marxism Criticized

900N01564 Hong Kong CHAO LIU [TIDE] in Chinese  
No 32, 15 Oct 89 p 20

[Article by Feng Shanghsiu (7458 1424 4423); "Beijing Criticizes Zhang Kuiliang's Views on 'The Dumbfounded Headscratching of Latter Day Marxism'"

[Text] In the midst of the current tidal wave of criticism against "capitalist freedoms," the Deng Xiaoping faction is taking careful note of those who proclaim a "crisis in Marxism" or who state similar such views. As a result, a steady stream of articles is being subjected to criticism. The essays and talks of Yu Guangyuan [0060 0342 6678], Gong Yuzhi [7895 5148 0037], Su Shaozhi [5685 4801 2535], and Zhang Xianyang [1728 7359 2254] that espouse making Marxism adapt to the needs of new realities have been pointed to as representative of the "anti-Marxists" and have met with "particular criticism."

In addition to these well-known experts, another expert unknown to overseas readers has recently come under fire for his views on the "dumbfounded headscratching of latter-day Marxism." This person is Heilongjiang University Philosophy Professor Zhang Kuiliang. However, Zhang is being exposed and criticized not only for his views on "Marxist headscratching" but also because he supported the student democratic movement and he has accounts outstanding from the early 1980's that haven't been settled.

### Zhang's Participation in the Enlightenment Movement of the Early 1980's

Unless one is a close observer of intellectual activities on the mainland, it is likely that one would not have heard of Zhang Kuiliang before. However, he was a quite active participant in the enlightenment movement of the late 1970's and early 1980's. At that time, he was not as well-known as Wang Ruoshui [3769 5387 3055], Zhou Yang [6650 2254], Ru Xin [3067 0207], Xue Dezen [5641 1795 7201], or Xing Bensi [6717 6321 1835] but still he wrote numerous articles discussing "the phenomenon of socialist dissimilation."

Zhang Kuiliang, now 52 years old, has taught in the philosophy department of Heilongjiang University for a long time. He rose from lecturer to assistant professor to full professor and he has published numerous essays and commentaries in northeastern journals like QIUSHI XUEKAN, SHEHUI KEXUE JIKAN, and XUEXI YU TANSUO. He has also published in-depth theoretical essays for northeastern publications like GUANGMING RIBAO and ZHONGGUO SHEHUI KEXUE. Most of his essays are compiled in *The Collected Works of Zhang Kuiliang—Musings and Searches*.

The main thrusts of the ideological enlightenment movement were to criticize Mao Zedong's divine rule, to expose the "phenomenon of socialist dissimilation," and to preach respect for human dignity, value, and rights

and to advocate humanitarianism. This was in ideological opposition to the Cultural Revolution and despotism and represented an enlightening of the masses, who had heretofore been kept in darkness.

During the enlightenment movement Zhang Kuiliang published essays attacking the "two whatevers" line of thinking and came forth with a refutation to counter the view that Hua Guofeng and Wang Dongxing were not allowed to alter Maoist doctrine. However, in the battle opposing the "two whatevers" Zhang Kuiliang was only one foot soldier among many, while the charge was spearheaded by such persons as Yu Guangyuan, Hu Jiwei [5170 4921 0251], Yan Jiaqi [0917 1367 0366], Sun Changjiang [1327 7022 3068], Zhang Xianyang, Su Shaozhi, and Li Honglin [2621 3163 2651].

His essays inquiring into "human value" and "the phenomenon of socialist dissimilation" met with a bit more interest than did his criticism of the "two whatevers." Among these essays, one he wrote together with other collaborators, entitled "An Essay on the Value of Man Under Socialism," in the winter of 1983 during the "eradication of spiritual pollution" movement put Zhang under attack and criticism.

The movement to "eradicate spiritual pollution" was a political purge launched by Hu Qiaomu [5170 0829 2606] with the support of certain elder Chinese Communist statesmen. At that time, the critics of Zhang Kuiliang said that by using the concept of dissimilation to examine the bureaucracy and special privilege Zhang was "distorting socialist reality" and "blowing the dark side of socialist reality way out of proportion."

### On Updating and Adapting Marxism to New Circumstances

In the last two or three years those experts who have researched Marxism have found the crisis in Marxism to be most interesting. Zhang Kuiliang ranks among them. In April and May of this year, as the democratic movement was reaching a feverish pitch, Zhang published two essays that met with great interest. They were "Marxist Theory in Asian Society" and "The Dumbfounded Headscratching of Latter-Day Marxism."

In this short article there is no way I could possibly hope to give a thorough introduction to these two essays written by Zhang. Zhang came under heavy political fire for these two essays because he advocated boldly "updating" and adapting Marxism to new circumstances.

Zhang Kuiliang feels that Marx's "prediction of a revolution" has come to naught, that there is a "huge discrepancy" between Marxist theory and reality, and for this reason Marxism is now in a state of confusion. He also feels that the picture Marx painted of social phenomena or the socialist model was done "with overly broad strokes." Thus, Zhang feels that "for Marx socialism does not equate to strict determinism and so

the implication is that later generations have wide latitude to adapt socialism to modern realities and there is no need to make every decision accord with what Marx said."

Because their hands are tied by the "four principles," mainland theoreticians can not openly advocate abandonment of Marxism. The best they can do is to circumspectly advocate flexibility and adaptability. And in the aftermath of the 4 June movement, even such mild opinions as this will lead to a political accounting.

### Rampant Gambling Activities Discussed

90ON0224A Beijing RENMIN GONGAN BAO in Chinese 8 Dec 89 p 3

[Article by Yi Li (0001 0500): "Present Gambling Activities and Countermeasures"]

[Text] Gambling activities at present have the following main characteristics: many participate, and youth participants are relatively prominent; gambling hours are long, and in recent years daytime gambling is up; the scale of gambling is getting greater and greater, it can be said that money is spent like water; it is moving from covert to overt; and the situation of uncovering gambling crimes is becoming more serious by the day.

*Reasons Why Gambling Is Repeatedly Prohibited, But Not Stopped*

#### 1. Driven by Money

Under conditions of reform, opening to the outside world, and enlivening the economy, and in line with the development of the commodity economy, people have come gradually to highly regard money and gambling is one way for certain people to contend for it. Ardent desires for material goods force these people to gamble as a way of getting rich. A survey revealed that those who gamble are driven by money. It can be said that a major reason why gambling is repeatedly prohibited but not stopped is its excitement and enticement.

#### 2. Seeking Spiritual Excitement

In the past few years, as reform, opening to the outside world, and enlivening the economy have deepened, and as the state economy has turned for the better and private incomes have generally risen, some people have begun to get rich first. While certain among them have had their material desires relatively satisfied, their spiritual lives are poor. In villages in particular, there is a lack of necessary cultural entertainment spots. Moreover, the level of morality and cultural enrichment is rather low. Thus, they seek excitement in gambling. As I understand it, in certain cities investigated, those under responsibility contracts to enterprises and individual households account for 51.7 percent of gamblers.

#### 3. Weak Legal Understanding

Some gamblers have a weak legal understanding. They think that gambling is better than poverty and accepting bribes, and that it differs from theft and robbery. They are spending their own money and both parties are willing. It does not concern others. State laws are even more a matter of "I'll mind my business and you mind yours." Thus, there are even big gamblers and specialized ones, leading to an ever more rampant gambling craze.

#### 4. From the Public Security Control Viewpoint, There Are Many Holes

The reason why some hotels, lodges, and guesthouses have set up casinos is lax public security control. Due to the trend of "looking for money in everything" on the part of these units, it has been found that groups of gambling guests are neither restricted nor reported. Some workers and public security personnel even participate, giving confidence to gamblers and gaining "good handling expenses" in the process. In some grassroots units and villages, some leaders lack feelings of responsibility. They neither hear nor ask about long-term organized gambling among workers and peasants. Some party members and cadres even go so far as to gamble themselves, leading to unbridled gambling.

#### 5. Weak Attacks on Gambling Activities

The author thinks that there are the following two sides: One is that criminal law is rather weak in determining crime for gambling. Furthermore, there is weak coordination among public security, investigation, and legal departments, such that those accustomed to gambling who should be arrested are not, those who should be sentenced are not, and the vast majority of gamblers and ringleaders are merely handled by public security divisions. Very few are administered legal severe punishment, meaning a loss of disciplinary warning and scare tactics. Second, public security organs fight in isolation. They have not created a united administrative front. In addition, the modernization status of public security equipment also affects investigative work.

#### Countermeasures To Eradicate Gambling

##### 1. Take advantage of the big chance for the State Council to deploy a national united front to dispel the "six vices." Energetically enhance propaganda and education work.

Circumstances require that we make widely known the dangers of and need to prohibit gambling. We must make everyone recognize that gambling is a bad habit, an illegal and criminal activity. At the same time, we can prevent it by issuing circulars and propaganda materials and by closing gambling halls. Based on actual local conditions, localities must formulate certain effective prohibitionary measures in order to begin large-scale mass banning of gambling activities. We must make active use of Women's Federation and Communist

Youth organizations to prohibit gambling. Where conditions permit, we can set up "Women's Federation alliances to prohibit gambling," "Communist Youth League supervision nets to prohibit gambling," and other such organizations to assist specialized organs thoroughly eradicate gambling activities.

**2. Perfect laws, rigorously attack gambling activities in accordance with the law.**

On the one hand, I suggest that relevant departments make resolutions or perfect regulations to punish severely gambling activities. On the other hand, we must deeply and for the long term initiate stern attacks on various gambling activities. We must make attacking gambling an important part of and measure for enhancing spiritual education, stabilizing social public security, and improving social mores. We must severely punish according to law the small number of gambling ringleaders, henchmen, criminal harbores, instigators of crimes, and repeat offenders who will not change. We definitely cannot be softhearted. We must prevent the appearance of "using penalties for punishments." As for state workers and Communist Youth League and Communist Party members who lead gambling rings, once discovered, we must steadfastly punish them severely. No matter what unit, organization, county, or village, if a gambling ring is discovered, we must lay responsibility on its leaders.

**3. Handle things in an integrated way: "attack, prevent, control, and establish" together.**

In investigating and prohibiting gambling, we must undertake integrated plans. We cannot rely on nabbing several gamblers or one or two "campaign-like" attacks to be successful. Thus, on the one hand we must motivate all levels of society to prohibit gambling instead of having public security organs fight isolated battles. Where there are people, they must help. Where there is money, it must be used. Wherever it involves someone, they must lend support. We must thoroughly have integrated control from top to bottom, organize strong social attacks, and launch destructive offensives on gambling. On the other hand, we must enhance investment in spiritual education. Based on local conditions, each area must start from reality, to improve and enhance the establishment and control of local cultural entertainment spots. Where conditions are rather poor, particularly in rural or rather remote mountainous areas, some cultural entertainment activities must be organized according to local needs, perhaps starting some science and technical or cultural study classes to improve the spiritual lives of the people, thoroughly turn around social practices, and eradicate the bad habit of gambling.

**Provinces Crack Down on 'Six Vices'**

90ON0260A Beijing RENMIN GONGAN BAO in Chinese 12 Dec 89 p 1

[A collection of five articles by Yao Yue (1202 6460) et al.: "Five Provinces and Prefectures Took Action To Eliminate the 'Six Vices'"]

**[Text] Hunan: Combining the Task With the Crackdown on Highway Thieves and Robbers**

In an effort to crack down on highwaymen who were active along the section of State Highway 107 that runs through the province and connects Beijing to Guangzhou, on 1-3 December, Hunan Province launched a massive operation aiming to eliminate the "six vices."

State Highway 107 is a north-south highway that runs through Hunan Province. It is more than 620 km long. Along the way, there are close to 10,000 assorted inns, restaurants, factories, mines, and enterprises and institutions. And prostitution, gambling, theft, and robbery, and other criminal activities are rampant. The people have been very upset. The recent operation was coordinated by the provincial government and was supported energetically by the CPC Committees and local governments of the five cities and 20 counties along the highway. Rough estimates indicate that the public security, public protection, and the public order and joint defense departments, as well as the procuratorial organs, courts, judicial department, and industry and commerce department dispatched more than 10,000 people to take part in this operation. As a result, more than 60 "bandit-run establishments" were shut down, more than 1,200 "wayside inns" were fined or suspended pending reorganization, and more than 3,000 assorted criminal elements were arrested. A number of prostitutes, procurers, and gamblers were also arrested on the spot.

**Shaanxi: The Leaders Go Down to the Grassroots Units and Work on Location**

Recently, leaders of Shaanxi's Provincial CPC Committee and provincial government went to the front line and worked on location to eliminate the "six vices." They provided guidance and immediately solved some specific problems encountered by public security organs during the crackdown on the "six vices."

Recently, the deputy secretary of the Shaanxi Provincial CPC Committee, Dong Jichang [5516 4949 2490], and the vice governor, Xu Shanlin [1776 1472 2651], led officials from the provincial public security office and Xian City's comrades who were in charge of the task to the Baishulin Police Station in Xian's Bilin District to learn more about the progress in eliminating the "six vices." When they heard that Xian City's public security bureau's operation was hampered by the shortage of gasoline, Xu Shanlin immediately made available 10 tons of gasoline. Deputy Secretary Dong Jichang also contacted the provincial departments immediately in an effort to get an early solution to the problem of lack of detention facilities.

Vice Governor Xu Shanlin and Deputy Secretary Dong Jichang said the police station is the first line of defense in the elimination of the "six vices." It must select experienced comrades who are familiar with the operation to investigate the cases, follow up on useful clues, track down the criminals wherever they may be, and exploit the victory. We must give play to the "tripartite"

superiority of our public security cadres and police, the public order and joint defense team, workers' pickets, and neighborhood committees to fight a people's war against the "six vices," making sure that we are not just going through the motions.

#### **Guangdong: A Long Struggle To Eliminate the Vices**

On 2 February, Guangdong Province's and Guangzhou City's propaganda and public security departments invited more than 50 representatives from all walks of society to attend a symposium on eliminating the "seven vices." The participants agreed unanimously that all forces in society must be mobilized to engage in a prolonged struggle to resolutely eliminate the "seven vices."

At the meeting, the participants put forward many good ideas and suggestions on how to eliminate the "seven vices." Officials of the provincial Women's Federation talked mainly about their efforts to ban prostitution, their experiences in trying to persuade their husbands and loved ones to give up gambling, and their activities to promote women's rights. Officials of the provincial league said young people throughout the province are actively involved in the struggle to eliminate the "seven vices." Youth reporting stations and youth and adult supervision posts and other organizations have already been set up. In the future, we need to form a perfect supervisory contingent to coordinate more effectively with the public security organs in launching the struggle.

Wang Jun [3769 7486], deputy chief of the Guangdong Public Security Department, urged the public security organs provincewide to concentrate efforts during this operation on straightening out key units and districts where the "seven vices" are most rampant, on destroying the bandits' nests that shelter criminal elements, and on cracking down on and punishing serious criminal elements.

#### **Jilin: An All-Out, Encircle-and-Suppress Effort**

Since Jilin Province began its centralized operation to eliminate the "six vices" on 1 November the province has tracked down 1,941 criminal elements associated

with the "six vices." Among them, 51 have been legally arrested, 94 have been sentenced to reeducation through labor, 287 have been detained by public order departments, and 957 have been fined and sentenced to reeducation through criticism. Today, the province has "completely encircled and suppressed" the "six vices." In-depth struggle is being launched.

Jilin Province's operation to eliminate the "six vices" was able to achieve this kind of success primarily because the CPC Committees at all levels were determined and because they took quick action and adopted effective measures. At the same time, they paid attention to the actual conditions and focused on the important areas. They targeted three main groups of criminal activities: Prostitution, gambling, and the production, sale, and circulation of pornographic materials.

#### **Inner Mongolia: Suit Measures to Local Conditions and Concentrate on the Key Areas**

Public security organs at all levels in Inner Mongolia launched a multiform special struggle to eliminate the "six vices," and while making sure that the deployment was comprehensive, they noted the actual conditions and drew up measures that suited local conditions and focused on the important areas.

Bayannur League's public security office focused attention on the spread of "yellow poison" [pornography], prostitution, and gambling activities in the rural and pastoral areas throughout Linhe Prefecture during the idle winter season and launched a special struggle to "mop up pornography, crack down on prostitution, and ban gambling" throughout the entire league. So far, 105 criminal cases involving prostitution and gambling have been investigated and dealt with, 36 pornographic videotapes have been seized, and six prostitution dens shut down. Aiming at the frequent incidents of sorcery and witchcraft, Jirem League's Horqin Left Wing and Right Wing are offering "idle medical study classes" in an effort to round up unoccupied persons who are practicing medicine, massage therapy, and bone-setting without licenses and teach them about the legal system and professional ethics.

**Military Strategy Seen Becoming More Scientific**  
HK2312055189 Beijing JIEFANGJUN BAO in Chinese  
1 Dec 89 p 3

[Article by Xi Li (1598 0500) and You Shisong (3266 4258 2646); "Strategy—the Core of Decisionmaking: A Very Highly Comprehensive Soft Science"]

[Text] Evolving from agricultural society, the oriental strategic ideas characteristic of Chinese traditional culture, which have been applied, summed up, and developed for some 4,000 years, are becoming more glamourous today. The publication of *Military Strategy*, written by Comrades Li Bingyan and Sun Jingtong, shows that military strategy, which is a traditional science with a long history, is emerging with a new outlook and developing as a new discipline. Although we have top-quality volumes on strategy, such as *Sunzi's Strategy and Tactics*, and on strategic theories such as the *Book of Changes* and the *Book of Morals and Virtues*, it was not until the beginning of the 1980's that we began to regard military strategy as a new scientific discipline for thorough and systematic study. This is a necessity of the times and a result of the reform and opening up. It has also resulted from different nationalities continuously competing with one another.

Strategy is the core of decisionmaking. Judged by the nature and characteristics of military strategy, it should fall into the category of "soft science."

Nowadays when people talk about "soft science," they are referring to a general science dealing with social organization and administration that lies between natural science and social science and is their synthesis.

Since the beginning of this century, and especially since the World War II, there have been great revolutions in science and technology. As men have studied and reexplored science in depth, they have created a new scientific branch, namely the study of science. Moreover, they have advanced their new understanding of the scientific structure, that is, "hard" science and "soft" science.

As early as the beginning of this century, people began dividing scientific information into "hard information" and "soft information." When the first electronic calculator (ENIAC) was invented in 1946, people distinguished "hard" culture from "soft" culture. Not long ago, our young science students Zhao Hongzhou and Jiang Guohua worked with famous scholars from over 10 universities in the Soviet Union, the United States, Britain, and Japan to explore questions concerning the origin of soft science and its application in this age. What they found out was that the so-called "hard science" is aimed at studying "hard" objects and "hard" questions, and is an objective, quantitative science with few variables. For example, all natural scientific disciplines are hard sciences. "Soft science" refers to scientific disciplines that deal with "soft" subjects

and "soft" questions, such as the social sciences, and they are subjective, unquantitative, and have many variables. There are also some scientific disciplines that have the nature of both sciences, for instance, psychology.

The scientific structure of soft science is still taking shape at the moment, and there is no common understanding of it yet. Some people think that it should be divided into four major categories, that is, systematic science, the study of science, leadership and management, and the mentality modeling of professionals, and that it should contain approximately 77 disciplines. Some think that it should at least include 10 major categories of disciplines and eight necessarily applicable soft technical methods. These 10 major categories are the study of science, military strategy, plan study, policy study, prediction study, policymaking study, leadership study, management study, personnel study, and system study. Of these, system study is the basis and nucleus of soft science. The eight soft technical methods are policymaking techniques, planning techniques, advising techniques, systematic methods, prediction techniques, modeling techniques, simulation techniques, and calculation techniques. Some people hold that soft science should include the following five categories: First, meta-knowledge, a scientific discipline dealing with the basic theories of the study of science and the theories of system study, and so on. Second, management and policymaking, a main-branch discipline of soft science, such as management study, policymaking study, leadership study, and strategy. Third, information prediction, an important relevant scientific discipline that brings about scientific management and decisionmaking, such as advice study, information study, prediction study, and futures study. Fourth, "wojian" [2441 0115], a relevant discipline that assists soft science and includes behavior study, professional study, creation study, effectiveness study, ideological and political work study, etc. "Wojian" (the concept comes from the word "whirlpool," and by extension it means coordination). Fifth, methodology, which includes systematic scientific methods, scientific and technological methods, methods concerning quantitative economy, and technical economy, and so forth.

As practice has attested, soft science has the wide-ranging, comprehensive functions of natural science, social science, and engineering technology. To be more specific, being a cognitive system and a means of thinking, it has the function of scientific understanding; being an applicable social technique, it has the functions of scientific management and decisionmaking; being a store of thoughts, it has the function of analyzing, proving, and advising; being the theories and methods for studying the future, it has the function of scientific prediction. Its functions are more accurate and concrete than those of philosophical understanding and more comprehensive than the functions of soft scientific understanding. It offers an effective means of thinking, making it possible to quantify complicated phenomena.

Soft science and soft scientific research have outstanding characteristics:

First, the disciplines of soft science include not only science but also many technologies, and they are also the application of social science. Its complexity and extensiveness cannot be compared to any discipline of hard science.

Second, soft scientific research is highly comprehensive, embracing many fields of study. A soft science research team must be one that combines professional workers of various fields and demands the integration of researchers, management workers, and policy makers.

Third, the vitality of soft scientific research lies in its application. Soft science should be aimed at the implementation of policy decisions and its actual results.

Fourth, soft scientific research is the high concentration of knowledge and a highly concentrated type of activity that develops human wisdom. The kind of experts and workers it demands must be highly educated and trained in a variety of disciplines, and they must think broadly and act seriously. It demands that those engaged in research consist of experts from every field and that they possess sufficient data and information. In a word, "soft science needs hard work."

Fifth, systematic analysis is the major method of soft science. Soft scientific research has to be in keeping with systematic thinking and integrate qualitative analysis and quantitative analysis, social science and natural science, and work experience, skills, and scientific means.

Sixth, the results of soft scientific research are usually "abstract," such as plans, programs, methods, strategies, policies, and measures. These results must have a definite degree of applicability.

Military strategy has more scientific features than ordinary scientific disciplines. "Strategy is the study of theories formed from the accumulation of rules governing the making of strategies and plans for coping with mobile confrontations." "It is the study of the factors contributing to victory in a military confrontation." These theories of ideas and laws aim at "winning with ingenuity, or winning a great victory at a minimum cost, or gaining and maintaining advantages without paying the cost (*Military Statistics, Volume 1*)."  
Military statistics is derived from such strategic studies as "statistics," and the objects of study are the most common laws governing confrontations. These laws transcend the commonly known military principles and tactics in military operations. They are applicable in making strategies and tactics, and in military campaigns. These laws exist both in periods in which cruel weapons are used or in the future, when wisdom will count the most. Theoretically, military strategy emphasizes the subject and has the characteristics of anthropology, while strategy emphasizes the object.

Military strategy is obviously very characteristic of soft science. It is highly comprehensive and wide-ranging and is connected with many related scientific studies. Military strategy seeks to "win a complete victory" or "take action to win a victory before the enemy does" and is, therefore, wide-ranging. In addition to the main branches of science, such as politics, diplomacy, economy, culture, and natural science, its related subjects include at least the following: philosophy, thought, psychology, and behavior study; they also include social and anthropological studies, such as sociology, history, nationality study, traditional culture study, and comparative culture study; mathematical processing methods such as operational research, statistics, contingency theories, mapping theories, development study; new scientific theories such as system theory, control theory, information theory, dissipation structure, coordination theory, and ultra-cycle theory. In the scope of strategy, military strategy is a cross-sectional scientific discipline that intersects a good many scientific disciplines and has many of their common features.

Military questions are much more complicated than ordinary social, economic, and technological ones. Making policies for military strategies is more demanding than making them for ordinary disciplines of soft science. The battlefield is a place where "weapons are used" and "life and death are decided." All parties to a battle try their utmost to "thwart their enemy's plans," and the battle situation changes in a split second. Therefore, they must have great flexibility and wide adjustability. They will make the best of illogical images, instinct, inspirations, and their comprehension of ideas to improve the quality of their strategy. Improving the art of strategy is the most important part of their strategy. This is an important task of military strategy.

Military strategy is a typical systematic and organic process. The "five matters" and "seven methods" discussed in *Sunzi's Strategy* are the synthesis of social science and natural science and are plain, systematic thinking that examines a battle by placing it in a specific political, historical, and natural environment and is a method aimed at victory. This typical soft scientific mode of thinking shows that military strategy is a branch of soft science with a long history. Of course, when the "Sunzi Statistics" were written, science and technology were not very advanced, so what it discussed were subjective, intellectual tactics. At that time, there were no machines, only "guessing in a monastic temple."

Today as science and technology are developing rapidly, battles are fought with the use of more electronic devices, wisdom, and techniques, and they are three-dimensional. The parties to a mobile confrontation possess unprecedentedly strong military strength, means, and high subjective mobility. Military problems are more comprehensive, ambiguous, and demand more adjustability, control over assembly and dissemination, and ability in arraying troops. In this respect, the development of military strategy continuously brings in more demands and has opened up a wider scope for the application and development of strategies. Today, with the development of computer studies, many varieties of

the "decisionmaking support system" (DSS) and "expert system" (ES) have appeared. In order to meet the needs of military strategic research, it is anticipated that in the future there will be many sorts of "strategic systems" (ARS). As super-brains for military leaders, they will conduct a number of illogical inferences and objective conclusions that will assist policy makers in working out strategies and prevent some policy makers from exercising a bad influence on their strategies out of their own personal weaknesses such as emotions, will, and courage. This is one of the peaks of military strategy that has to be climbed.

In ancient times, good military strategy was based on the good advice of advisers. But it was used mainly to "trick" and "deceive" enemies. Today, military strategies can be used in various fields such as economic development, operations and management, design, and "public relations," and so forth.

People always say: "With a little wit one can handle matters, with great wisdom one can handle people, and with exceptional wisdom one can make policies." The purpose of soft scientific research is to make policies and strategy a scientific discipline that offers a means and support to policymaking. The whole process of decisionmaking has to bring into play strategic thinking, and decisionmaking is the choice of strategies. Therefore, we can say strategy is the core of decisionmaking. Strategy is a branch of soft science that has an important position in the policymaking system.

### Fleet Conducts Wide-Ranging Maritime Education

HK3112092289 Beijing JIEFANGJUN BAO in Chinese  
16 Dec 89 p 1

[Report by Shen Shungen (3088 7311 2704) and Yang Dechang (2799 1795 2490): "Each China Sea Fleet Conducts Education in 'Outlook on Sea' Among Units, Boosting Enthusiasm of Officers and Men for Building Powerful Navy"]

[Text] An education program with the theme of "outlook on sea" has been universally unfolded among units under the East China Sea Fleet to widen the vision of oceanography and to boost the sense of the sea and concept of sea territory. The education has roused the strong interests of officers and men, and become a basic engineering for navy building with its distinct ideology, resourcefulness, and strong realistic purpose.

The world today has entered a new era of wide-ranging exploitation and utilization of the sea, with the sea's economic and military values increased with each passing day, while the contention over maritime rights and interests will become one of the major contradictions in the world. A correct knowledge of the sea, devotion to maritime undertakings, safeguarding sea territory and national maritime interests is an important issue that has a bearing on the nation's rise and decline

and the motherland's prosperity. Based on this understanding, the East China Sea Fleet party committee is determined to unfold universal and in-depth education with this theme among all units under its command as an extension and development of the education in "cherishing vessels, islands, and the sea" as first advocated by Chairman Mao in the 1950's. To do a good job in this education, the Fleet's political department has edited and published such teaching materials and supplementary reading materials as "The 'Outlook on Sea' and the Historical Mission for the People's Navy," "Safeguard the Rich and Beautiful Spratly Islands," and "The Young Sea," while it has built an exhibition hall that gives a concise history of the East China Sea Fleet, and conducted competitions in the the mastery of oceanography. The education consists of three major parts: Oceanography, the concept of sea territory, and the sense of naval defense. To start with understanding the sea, China's major ports, islands, aquatic products, and mineral resources are briefed in a systematic way, to enable officers and men to have an understanding of China's and the world's present conditions and contrast in exploiting the sea, to stimulate their boundless devotion to China's rich and beautiful seas, and to establish their strong sense of making contributions to the revolutionary cause and enterprising spirit in exploiting and utilizing the "blue treasure house." It starts with understanding the implication of sea territory, and clarifying such new concepts as sea territory, exclusive economic zones, and continental shelves. At the same time, clear explanations are given with regard to the realm of China's sea territory, and the historical facts of some of China's islands, reefs, and sea territory being occupied, to augment the concept of sea territory among officers and men, to stimulate their senses of mission and responsibility to defend the dignity of the motherland's territory and sea territory, and to be determined to fulfill the great cause of the motherland's reunification. Through studying modern history, the history of struggling for sea frontiers, and the history of sea fleet growth, officers and men have been enabled to see that Old China had sea territory but no naval defense to speak of, imperialists invaded China's sea territory on some 80 occasions in history, and brought great calamities to the Chinese nation. Thus, a sense of pressure regarding the building of a powerful navy and a sense of naval defense are stimulated among all officers and men.

The education spanned from April to November, lasting some six months. Through education, a strong sense of mission to build a modern navy as well as their devotion to the islands and the sea has been evoked among officers and men. Activities in creating fine units, and meeting criteria for grassroots building have been unfolded in depth, with the surfacing of large numbers of fine sailors, advanced servicemen, and model captains. There is a greater number of qualified captains through all-around training than in past years. A best record in the history of navigation in safety has been scored, with a number of vessels outstandingly fulfilling their tasks in ocean-going navigation.

**Combat Training Faces New Challenges**

HK0402083890 Beijing JIEFANGJUN BAO in Chinese  
23 Dec 89 p 3

[Article by Zhang Baishun (1728 4120 7311) and Bai Duoning (4101 1122 1337): "Local War and Combat Training"]

[Text] With the arrival of the 1980's, forces that lessen the possibility of war have been on the rise, and a global trend of relaxing tensions has appeared. Traditional combat training concepts are facing the challenges of new issues posed by local wars.

1. With the increasingly wide military application of modern scientific technology, the forms and combat styles of local wars have assumed different features; for instance the introduction of high-efficiency weapons systems, a high degree of integration, limited battlefield and combat objectives, unexpectedness, short battle time, and so on. All this demands that the organizers of combat training think ahead and organize training in such a way that it meets the exigencies of future warfare; and that forces undergoing this kind of combat training have the capacity to deal with various unexpected occurrences and to adjust to the complicated and ever-changing battlefields.

The Soviet-Finnish war shortly before World War II offers a profound lesson in this aspect. As the battle organizers had not given sufficient consideration to the widely scattered lakes and unbroken thick forests of Finland, which might have a range of negative effects on combat actions, for a considerable time following the start of the war the Soviet Army, which enjoyed absolute superiority, was caught in an awkward situation where it "could not advance and had no positions to fall back on," and could only defend itself passively against attacks. For one month it was held down at Mannerheim on its way toward its major battlefields, sustaining heavy casualties for every little step it made.

Local wars and battles in the future are bound to have varied changes. What matters is that we must be able to foresee the changes and promptly adjust our combat training on the basis of scientific forecasts.

2. The problem of where to put the focus cannot be avoided in exploring combat training against the background of local wars. In this aspect, judging from the conditions of foreign armies and ours, the basic understanding is identical despite slightly different versions: The combat exercise is to be the focus as well as the supreme form of training.

An overall review of recent exercises by foreign armies yields the following characteristics: They are guided by very stable combat training concepts; they generally operate on a three-to-five year training cycle; attention is paid to raising the standards of strategic planning of all the leading units; officers command exercises far out-number realistic combat exercises; the number of units

participating in exercises is great; units are from different military areas or even from other countries, and more services and arms are involved.

Practice in our Army has repeatedly proved that combat exercise requires continuity—there cannot be an annual change of themes. Moreover, we should gradually form a series of combat exercise systems centrally coordinated by a unified authority. We should also pay attention to the compositions of the forces participating in exercises, exercise areas, and cross-area exercises.

In a word, making critical breakthroughs in the important areas of combat training and achieving a general improvement in overall strategic planning standards of leading units have become the key points of current combat training.

3. It will do no good to keep to the old, well-tried ways if we are to conduct high-level combat training and if the training is to resemble future local wars as much as possible. We should continuously make breakthroughs both in concept and method.

In the context of learning and grasping the present status of combat training, creative spirit plays an important leading role in speeding up change and progress in the present conditions, while theoretical study of battles will serve as the crowning means in bringing about breakthroughs. Only through vast theoretical research and intensive, rigorous, and scientific argumentation can we master the law of the development of combat training. Whether we can apply research results to combat training in a timely fashion, and thus realize the harmonious unity of theory and practice, determines the extent of breakthroughs and development.

Both the U.S. and Soviet Armies pay more attention to this aspect. In recent years there have appeared in Soviet Army the battle theories of "integrated firepower obliteration," "in-depth attack," "mobile battle formations," "aerial surprise-attack tier-force" and so on; and, in the U.S. Army, the launching and employment of the "air-ground integrated battle." All this has shown that they are eager to face up to the new objective realities and break beyond the confines of original theories.

Judging from the needs of the future, the urgent thing is that we must strive to renew battle theories within the fundamental framework of local wars.

**Shenyang Military Region Resolves Land Disputes**

HK0402071890 Beijing JIEFANGJUN BAO in Chinese  
26 Dec 89 p 1

[By Pu Jiang (5543 5592) and Song Yunda (1345 0061 6671)]

[Text] On 16 December, we learned from the relevant department of the Shenyang Military Region that the people's governments at various levels in Liaoning, Jilin,

and Heilongjiang Provinces, and in the Inner Mongolia Autonomous Region, adopted the principle of respecting history and reality and solving problems for the sake of military-civilian unity and national defense and took initiative in mediating between military and civilian units which were involved in land disputes. In the past year, they properly settled dozens of land dispute cases through fair arbitration. Some 20,000 mu of military-purpose land which was occupied by civilians was officially returned to the military units.

In the past few years, some land originally owned and used by the troops of the Shenyang Military Region was occupied by local civilians after the troops stationed there were transferred to other places or reorganized. In early 1989, the military began to survey the land used for military purposes. The local people's governments at various levels in Liaoning, Jilin, Heilongjiang, and Inner Mongolia then actively cooperated with the land management department of the military region in finding out the original ownership of land and properly settling land disputes. This ensured that military units could have necessary land for military purposes. A tank training base had 1,600 mu of training ground in the past, but the land was occupied and used by some civilian units and local people after the military reorganization. Only one tank trail was left in the training ground. This year, the local government dispatched special officials to verify the original certificates for the ownership of this stretch of land, and decided to return the training ground to the military.

**Reporter Views Prediction of 'Small Wars'**  
HK0602061990 Beijing JIEFANGJUN BAO in Chinese  
29 Dec 89 p 3

[Article by Chen Yutian (7115 3768 3944): "Pay Attention to Forecast of 'Small Wars'"]

[Text] In commanding a war, you have to have scientific foresight before you can have a correct strategy and gain the initiative. Clausewitz said that the military commander's judgment is more important than tricks. The judgment he mentioned refers to the commander's insight, which enables him to know what is coming from one small clue on the battlefield, and foresight. Ancient Chinese strategists believed that a general must be sure of winning before he challenges the enemy. But you will not be sure of winning unless you have foresight. A general must have foresight before he can meet an emergency.

Before the war over the sovereignty of the Falkland Islands, since Britain little expected Argentina to take military action, they were thrown into passivity in the early days of the war, despite military superiority. Likewise, when deciding to fight the war, Argentina was not properly prepared for it militarily, because they thought that the United Kingdom, being far away from the Falkland Islands, would not be able to launch a major counterattack. This is, it can be said, the major cause of

Argentina's final defeat. Clearly, whether or not you have the correct foresight, which enables you to gain the initiative before a war, will decide its outcome.

At present and for a comparatively long period to come, a world war is unlikely to break out, so the main task of our Army is to deal with sudden incidents or limited wars. China, a country with a vast land and a big population, enjoys enormous staying power, so it can win an all-out war by protracting the war and by using opportunities in the course of it to turn the tables, despite early passivity in the war caused by incorrect foresight. But it is quite another story to deal with sudden attacks and local wars. These military conflicts are characterized by suddenness, small scale, quickness, short time, and limited space, so the outcome will be determined in "a brief battle." That is to say, the initial victory often means the final victory. The decisive factor in victory lies in the capacity to make a quick response rather than in abundant staying power. Therefore, given the current situation, it is more important to have scientific forecasts and an army of good quality.

When the U.S. Air Force attacked Libya, they delivered two waves of air attacks in half an hour. This shows how short the time for a sudden attack is when high-tech weaponry is employed. If we follow the procedure of preparing against an all-out war as we did, that is, if we do not galvanize the nation into action, and mass and deploy troops until the enemy fires the first shot, everything will be lost. Although making a quick response should become our basic guiding ideology in dealing with sudden attacks and local wars, we will not achieve good results if we do not have scientific foresight and make preparations against sudden attacks.

China has a long frontier and a varied topography, is surrounded by countries that implement different policies, and the international situation is changeable. All these factors are likely to give rise to sudden incidents or partial military conflicts of various kinds and in irregular directions. Since the founding of the republic, we have fought several limited wars, which varied as to enemy, direction, pattern, and characteristics. The incidents we will encounter in the future will not be of the same formula. This serves to indicate that we must rely on scientific forecast rather than past experience to deal with sudden incidents in the future.

What merits attention is that in recent years we have only talked about the guiding ideology for directing a war against sudden incidents in abstract terms, and have not carried out a practical research on the prediction of wars. Articles dealing with this subject have been superficial rather than providing practical guidance. We have paid greater attention to preparations against major wars rather than "small wars." When summing up our experience in the limited wars we have fought, we emphasized our victories, and failed analyze adequately our weak points, thus strengthening the ideology of ignoring "small wars." We have always thought that ours is a "big country" and we have no difficulty in dealing with

"small wars," with the result that we have not conducted an in-depth study of the art of prediction.

Although the general situation is calm, it is dangerous to forget war. It is important for theoretical circles to strengthen their research on the prediction of wars, various sudden incidents and limited wars in particular, and make their theories practicable.

#### PLA Industrial Production Increases

HK0502064390 Beijing JIEFANGJUN BAO in Chinese  
29 Dec 89 p 1

[Report by Guo Chunsheng (6753 2504 3932) and Liu Sansheng (0491 0005 4164): The Military Industry Scores the Best Results in History]

[Text] Beijing, 28 Dec—These reporters learned from the meeting on the entire Army's military production and operations, which ended yesterday, that in 1989,

through the improvement and rectification program and the thorough reform program, factories subordinate to the Army have overcome enormous difficulties and maintained steady production. The annual total industrial output value has had a 15-percent increase over last year, and tax and profits have had a 19-percent increase over last year, scoring the best results in history. Some 51 factories from the entire Army had their enterprise rank promoted during the whole year.

It has not been easy for the Army to achieve production targets this year. The "three shortages" (shortages of capital, materials, and energy) and "one poverty" (poor transport), a weak market, and other factors, have had a definite influence on Army production and operations. In the face of these difficulties, all factories have strengthened their management and sped up technological advancement so that production can increase steadily and continuously.

## EAST REGION

### Jiangsu CPC Strives To Enliven Social Sciences

90ON0245B Nanjing XINHUA RIBAO in Chinese  
14 Dec 89 p 1

[Text] The provincial CPC Propaganda Department invited a number of theoretical workers to Nanjing on the morning of the 11th (December 1989) to a symposium to discuss the topic of "maintaining the four cardinal principles while enlivening social sciences in Jiangsu."

The theoretical workers who attended the symposium all felt that the study of social science is now faced with a new situation that is extremely difficult. Professors Gu Huanzhang [7357 3562 4545] and Hong Yinxing [3163 6892 5281] pointed out that although the current economic situation is fairly good it still faces some serious problems. We urgently need to increase research on the real problems of rectifying the economic order and deepening reform in order to ensure the expected goals in economic order and rectification are achieved. Professors Mao Jiaqi [5403 1367 3823] and Wang Yushu [3769 5148 2992] stated that the subject of how to deal with traditional culture and how to improve construction of socialist moral principles is also in urgent need of study. It does not matter if analysis and research are being conducted on China's traditional culture or a foreign culture, it should be done in a practical, realistic, and scientific manner.

Many comrades spoke of problems related to maintaining the four cardinal principles and carrying out the "double-hundred policy." Associate professor Song Linfei [1345 2651 7378] believes that these two areas should be unified. The four cardinal principles are fundamental prerequisites that cannot waver; however, in the sphere of theoretical research, the only way for truth to develop is to insist the policy of "letting the hundred schools" Professor Chen Shaohui feels that in the domain of social science, in addition to the contradiction between upholding the four cardinal principles and bourgeois liberalization, there are also problems that are recognized as not contradictory, such as a problem recognized by one side that is also recognized as a problem by another side. All these contradictions are intertwined. Bourgeois liberalization must be criticized; however, during the exploration process it is difficult to avoid some ill-conceived beliefs that are one-sided. Professor Hong Yinxing pointed out that we cannot want only to expand the concept of bourgeois liberalization and we also cannot use exploratory viewpoints of the reform and opening up to criticize liberalization.

For social science research to be enlivened we must motivate the enthusiasm of the vast numbers of theoretical workers. Associate editor Yang Liuqi [2799 0362 1142] pointed out that the vast numbers of social science workers have trust in the political arena and rely on it in their actual work. Scholars such as Xia Jun [1115 6511], Lu Kaiguo [7773 7030 0948], and Xu Funing [6079 1788

3942] believe we should have a stable policy regarding social science research and that the CPC Propaganda Department needs to eagerly direct, support, and help social science research work, including proposing subjects to be researched, assigning tasks, organizing the workers, and supplying the right conditions for the research.

Many comrades felt that, in order to enliven social science research, theoretical workers must increase their own study and continually improve on their accomplishments. Professors Lin Dehong [2651 1795 1347] and Hong Yinxing declared that many comrades engaged in theoretical research and those conducting actual work are not very interested in Marxism and, as a result, have a poor foundation in this ideology. Due to this, the Central Committee has called for the study of Marxism to be considered extremely necessary. Professors Sun Bokui [1327 0130 ?] and Ye Zeming [0673 1311 6900] believe that theoretical workers must do a better job of assuming their historical responsibilities, and put forth persistent efforts to uphold and expand Marxism, enliven social science, and construct socialism.

Comrade Gu Fuming [5519 4395 2494], a Standing Committee member of the Jiangsu Chinese Communist Party Committee, attended and spoke at the symposium. He said upholding the four cardinal principles and the "double-hundred" policy in a combined manner is a consistent stand of the party. Upholding the four cardinal principles, criticizing bourgeois liberalization, and carrying out the "double-hundred" policy are all connected, and, are essential requirements for social science and theoretical workers. The vast number of theoretical workers, especially party members, should have a high sense of historical responsibility, sense of mission, and be firm in their convictions. These workers need to earnestly study Marxism, conscientiously uphold the basic party line, uphold the four cardinal principles, oppose bourgeois liberalization, conduct further study of China's situation and history, study the important problems of the present age, and study the new international situation and problems related to it. They need to be bold in their explorations, let a hundred schools of thought content, and conscientiously exert efforts to promote social science undertakings in Jiangsu to build socialism with Chinese characteristics.

### Commentator Argues for Continued Reform in Jiangsu

90ON0245A Nanjing XINHUA RIBAO in Chinese  
14 Dec 89 p 1

[Commentary: "The Principles for Rectifying the Economic Order and In-Depth Reform are One in the Same"]

[Text] After more than a year of actual practice in rectifying the economic order and carrying out an objective analysis on China's economy, the people have gradually come to the profound realization that rectifying the

economic order and in-depth reform is the only correct policy for solving the gross quantitative imbalance in China's economy and for allowing it to proceed along a sustained, stable, and coordinated path. The resolution formulated by the 5th Plenary Session of the 13th CPC Central Committee contained a dialectic discourse on rectifying the economic order and deepening reform. The discussion on reform and opening up revolved around the tasks needed for rectifying the economic order. This provides clear-cut thinking for the future work of leaders at all levels to organically combine rectification of the economic order and in-depth reform to thoroughly and completely implement the Central Committee resolution. At present, the entire Jiangsu Communist Party and people have a high degree of enthusiasm and are conscientiously studying how to implement this resolution.

Because we are faced with many problems, a complicated situation, intensifying positional differences, and varying points of view toward examining problems, some comrades are asking why rectification of the economic order and deepening reform are combined into a unified policy. They want to know why these two things are independent and rely on each other for existence. They do not have a clear understanding of these areas, they either discuss rectification of the economic order and not in-depth reform, or they discuss in-depth reform and not rectification. Either consciously or unconsciously, they put rectification of the economic order and in-depth reform in opposition to each other. It is obvious that this way of looking at things is one-sided and hinders the unification of our thinking, policy, and actions to suit the major resolutions of the 5th Plenary Session.

The reason rectification of the economic order and in-depth reform are unified into one policy is because both have the same goal. That is, to create sustained, stable, and coordinated development in the national economy, and to continue along the path of building socialism with Chinese characteristics. Toward this common goal, these two areas are mutually connected, mutually effective, and are formed into an organic whole for current economic work. In one aspect, rectification of the economic order creates the necessary conditions for in-depth reform. During this stage, Because some people are impatient for success, there were some violations of objective laws, bringing about the problems of gross quantitative imbalance, structural disproportion, inflation, and confusion in the economic order. If we do not carry out rectification of the economic order to change this situation, much of the reform will be difficult to implement. Under the situation of a serious loss in macroeconomic control, the expected results from many microeconomic measures will not be achieved and some may even have a detrimental effect. Actual practice has shown that rectification of the economic order must be carried out; it is necessary for strengthening and expanding on achievements already attained in reform. It is also needed in order to correct deviations and

mistakes that are hindering reform. In another aspect, when carrying out measures for rectifying the economic order we cannot rely merely on administrative orders, but must coordinate these with reform measures. Some measures for economic order rectification are contained in in-depth reform. For example, improving and strengthening the macrocontrol system, adjusting and strengthening market order, and rationally coordinating beneficial relations in all aspects should all be a part of socialist economic system reform. Some comrades who are genuinely eager for reform and have a profound understanding of it look at the dialectical unity relationship of the two areas with an outburst of enthusiasm for rectifying the economic order and in-depth reform. This has given impetus to deepening reform in economic order rectification and the principles contained in it.

Some comrades cannot intrinsically grasp the connotative relationships in reform and lack a dialectically unified understanding of rectifying the economic order and in-depth reform. Some people believe that only by constantly coming out with new policies can we have reform, and just continuing to pass down authority is a type of reform. The stressing of economic order rectification in the overall situation has resulted in the feeling that in-depth reform is "attempting nothing and accomplishing nothing," and that the reform has stagnated. But in actuality this is a misunderstanding. The reform of China's economic system is the self improvement of the socialist economic system.

We must uphold the public ownership system and a planned commodity economy. Actual practice in China has proved that a completely planned economy becomes more and more inflexible and obstructs the enthusiasm of localities and enterprises, which is bad. The practice of a complete market economy inevitably leads to polarization, which is also bad. The heart of the reform is to establish an economic revolving mechanism from a regulated and integrated planned economy and market economy. This includes microeconomic measures as well as macroeconomic control, it is definitely not merely a question of "passing down." No matter how much authority is passed down or at what speed it is passed down, it must still be coordinated with the process of establishing macroeconomic control measures. Especially with the current reform entering a deeper stage, if we still use the past method of passing down authority so it suits the centralized process and carry out adjustment of the benefit structure, then each reform measure will protect the vested interests of localities in order to strive for even more benefits. In this way, carrying out reform measures necessary to adjust the benefits of local departments and enterprises in order to strengthen our current ability for macroeconomic control could cause a lack of ideological preparedness and not suit the requirements for in-depth reform. Consequently, only through a comprehensive, profound grasp of the essence of reform and by taking the initiative in in-depth reform during the period of rectifying the economic order can we continue to liberate our thinking during reform. Giving play to

initiative and creativity will cause reform to advance smoothly in this complicated environment.

While faced with temporary economic problems in advancement, our party did not abandon reform and opening up, but on the contrary, we staunchly held on to the belief that the achievements of the last 10 years were brought about by reform, and we maintained our belief that hope for future development lies in reform and opening up. We definitely must not return to the path of 10 years ago. "A fall into the pit, a gain in your wit"—The masses have personally experienced mistakes, achievements, suffering, and joy during the reform. The current of this reform can not be reversed. The 5th Plenary Session stressed that we must not waver from the basic line, principles, and policies adopted by the 13th CPC Central Committee. It also clearly pointed out that rectifying the economic order is a prerequisite that must be carried out in upholding the overall direction of reform and opening up. Comrade Deng Xiaoping put forward, upholding reform and opening up will to a great extent effect the long-term stability of China's overall situation. In order to dispel the worry that rectification of the economic order will affect the momentum of reform and opening up that some comrades have, we need to clearly reiterate to cadres and the masses that the Central Committee is determined to uphold this administrative policy. We also need to make it clear that rectifying the economic order and in-depth reform are in complete accord with the basic line of the party and the overall policy of reform and opening up. We also need to put special emphasis on stabilizing policy. We need to continue to thoroughly carry out the various policies, except where new regulations have been implemented, formulated by the CPC Central Committee, State Council, provincial CPC Committee, and provincial governments. In regard to this issue, we must not do it half-heartedly or have any wavering. We must maintain the continuity and stability of reform and ensure that reform and opening up proceeds in an orderly way and in a reliable and sound manner. For the current reform in Jiangsu to be suited to the requirements of economic development during the period of economic rectification, we must continue with in-depth reform of the rural and urban economic systems, especially stabilizing and perfecting the rural joint contracted responsibility system, enterprise contracted responsibility system, and the factory director (manager) responsibility system. We need to increase planning and appropriately centralize the economy, and, while continuing microeconomic measures, also strengthen macroeconomic control. Additionally, we must proceed from actual conditions, earnestly sum up the work of the masses, and search for some specific reform measures with local characteristics. Be resolute concerning the policy of opening up to the outside, and no matter whether its foreign trade or attracting foreign investment and advanced technology, the pace of both must be speeded up. Jiangsu has the right conditions and ability to attain breakthroughs in this area. We need to fully utilize the various levels in the structure for opening up

to the outside that have been created by industry, continue to develop a foreign oriented economy, actively participate in international exchange and competition, and achieve more successes in opening up foreign trade and economic and technical cooperation. This will enable opening up and rectification of the economic order to mutually advance, is an important way for us to overcome economic difficulties, and is beneficial for raising the overall quality of Jiangsu's economy. In summary, during the period of economic order rectification, it will be well worth our continuing with reform and opening up.

#### Fujian Releases Statistics on Lawyers

40050011A Fuzhou FUJIAN RIBAO in Chinese  
23 Dec 89 p 1

[By Liu Shaofeng (0491 2556 1496) and Du Huaishi (2629 0012 6108)]

[Summary] Statistics revealed 20 December by the Fujian Provincial Department of Justice and the Fujian Provincial Lawyers' Society showed that by the end of 1989, Fujian had 1,155 lawyers, of which 660 were full-time and 495 were part-time lawyers or legal consultants. There were 128 legal clinics, funded by public, collective, or cooperative funds, found in all cities and counties and some townships and towns. Over the past 10 years, Fujian's lawyers have handled more than 24,200 criminal cases, 33,369 civil (including economic) cases, and numerous out-of-court settlements. Since 1983, 3,500 government organs, enterprises, and businesses hired lawyers as long-term consultants. These lawyers handled more than 10,000 cases and averted or recovered more than 400 million yuan in economic damages.

#### Deputy Secretary Addresses Shandong CPC Committee

SK2112002189 Jinan Shandong Provincial Service in Mandarin 2300 GMT 19 Dec 89

[Text] Ma Zhongchen, deputy secretary of the provincial party committee, spoke at the third enlarged plenary session of the Fifth Shandong Provincial CPC Committee on 4 December. He stressed that the party's political advantage should be fully developed to make sure that the endeavor of improvement, rectification, and deepening of reform progresses smoothly.

Ma Zhongchen gave five opinions on this issue: First, we should earnestly pay attention to party building and strengthen the party's central and leading role. Second, we should greatly strengthen ideological and political work, spark the enthusiasm of all quarters and establish a powerful resultant of forces. Third, we should oppose corruption, be honest and diligent in performing duties, and maintain and carry forward our party's fine traditions of forging close ties to the masses, plain living, and hard struggle. Fourth, we should deal stern blows to serious criminal and economic offenses, resolutely wipe

out the six vices, and create a good social environment. Fifth, we should study hard Marxism-Leninism-Mao Zedong Thought and continuously improve our ideological and theoretical levels.

Ma Zhongchen said that the CPC is the core force that leads us in carrying out our causes. The key to whether the tasks for the endeavor of improvement, rectification, and deepening of reform can be fulfilled smoothly lies in party leadership. Since reform and opening up started, our province has paid fairly great attention to party building. Party organizations at various levels have played their leading and central role fairly successfully, and party members have been faithful to our causes and have worked diligently. The tremendous achievements in the 10-year reform embody the painstaking labor of party organizations at various levels and the masses of party members. Particularly at the crucial moment for checking the turmoil and suppressing the counterrevolutionary rebellion, the overwhelming majority of party organizations and party members in our province were able to take a firm and clear-cut stand in unswervingly implementing the correct policy decisions of the party Central Committee and the arrangements of the provincial party committee, thus making contributions to stabilizing the province's situation. Facts have shown that party organizations at various levels and the masses of party members throughout the province are capable of standing any tests and are combat effective.

Speaking on improvement of leading bodies, Ma Zhongchen said that success in improving leading bodies is currently the focal point of organizational building. In improving leading bodies, we should uphold the four requirements on cadres and the principle of selecting cadres with both ability and political integrity. At present, when evaluating cadres we should emphasize the following: First, we should make realistically evaluate the performance of leading cadres, especially those at and above the county and section levels, during the period of checking the turmoil and suppressing the counterrevolutionary rebellion. Second, we should discover, examine, and temper cadres, and train talented people in the process of improvement, rectification, and deepening reform. When organizing leading bodies, units at all levels should pay attention to maintaining the relative stability of leading bodies and the rational structure of all bodies so they can perform their best functions.

Ma Zhongchen pointed out that ideological and political work is a fine tradition and also a major political advantage of our party. The focus of ideological and political work should be different in different periods. At present, we should emphasize ideological education, focusing on education in socialism, which should permeate all types of education, so that the masses can truly understand the truth that only socialism can save and develop China, establish a wall of iron to resist the ideological trend of bourgeois liberalization, peace evolution, corruption, and infiltration, and arouse their

enthusiasm and creativity to fulfill the tasks of improvement, rectification, and deepening of reform with concerted efforts.

Ma Zhongchen pointed out that overcoming corrupt phenomena and stepping up efforts in maintaining honest performance of duty are an important content of party building. To further promote honest performance of duty, we should simultaneously adopt effective measures, conduct education, and exercise supervision to tackle problems comprehensively, talk less, and do more practical work to achieve actual results. To attain this, we should first embrace the idea of fighting a long-term battle. Second, we should correctly handle the relationship between the endeavor to maintain honest performance of duty and development of the economy. Third, we should solve, in a down-to-earth manner, the problems about which the masses have many complaints. Fourth, we should improve rules, regulations, and systems. Honest performance should be guaranteed by stable and long-term systems.

Ma Zhongchen stressed that the most important and overriding task for the present is to maintain social stability. We should continue to unswervingly implement the central policy of dealing stern blows to serious criminal and economic offenses, and, while carrying out the antipornography work with great efforts, concentrate efforts on eliminating ugly social phenomena, such as the abduction and selling of women and children. Party and government responsible comrades should remain highly vigilant and should never lower their guard and take them lightly. They should conscientiously strengthen leadership, and sternly deal blows to and eliminate all criminal activities and ugly phenomena so as to provide a good social environment for the endeavor of improvement, rectification and deepening of reform, and the building of the two civilizations.

Ma Zhongchen emphasized that party committees at various levels should regard study of Marxist theory as a strategic task, include it in their work schedule, pay close attention to it, and carry it out successfully. At present, we should first conscientiously study the Marxist philosophy. Studying philosophy is a strategic task for us to further correct our ideological line, and improve the quality of the contingent of cadres.

## CENTRAL-SOUTH REGION

### Guangdong Leaders Interviewed on Cadre Investigations

90ON01824 Guangzhou KAITUOZHE [PIONEER] in Chinese No 10, 10 Oct 89 pp 6-8

[Summaries of interviews by KAITUOZHE reporter Zhou Yi (0719 3015) with Guangdong provincial party committee leading cadres Fang Bao (2455 5383), Standing Committee member and general secretary in charge of inspection teams; Wang Zongchun (3769 1350 2504), Standing Committee member and secretary of the

Discipline Inspection Commission in charge of the discipline inspection work teams; and Zheng Guoxiong (6774 0948 7160), Standing Committee member and chief of the Organization Department in charge of cadre examination teams; dates of the interviews are given before each summary; place not given]

[Text] 14 September, 0900

[Zhou] Comrade Fang Bao, would you tell the readers the thinking behind the provincial party committee's dispatching of inspection teams and work teams?

[Fang] I can only talk about my own understanding of it, which is as follows:

First, by studying the resolution of the 4th Plenary Session of the 13th party Central Committee, the provincial party committee was determined to change the past practice of taking a relatively hard approach to economic construction, but a relatively soft approach to our spiritual civilization.

Second, this also reflected a change in the provincial party committee's leadership style, namely, the requirement for instituting a leadership method that combined general calls for action with specific guidance. General calls are the provincial party committee's convening an expanded Standing Committee meeting and conducting study classes for leading cadres at the county level and above throughout Guangdong to implement the spirit of the 4th Plenary Session of the 13th Party Central Committee and to oppose corruption and promote integrity. But how do the lower levels carry this out? The results will not be the same for those with a high degree of political consciousness as it will be for those whose political consciousness is less elevated. The dispatching of inspection teams and work teams by the provincial party committee is for implementing specific guidance. This will enable opposition to corruption and promotion of integrity to be thoroughly developed and good results to be obtained.

Third, experience shows that, when dealing with cases involving cadres, on the one hand you have to rely on them to examine themselves conscientiously and unburden themselves, and, on the other hand, you have to supervise them from above.

It is our overall guiding ideology that we have to give substance to the fight against corruption and the building of clean government. This is not just an empty appeal. It is genuine determination. We have to have action, and we have to achieve positive results. Dispatching the inspection teams and work teams is a clear indication that the provincial party committee is going to take full charge of implementing this important task of opposing corruption and promoting integrity until it is absolutely complete.

[Zhou] The masses are concerned about opposition to corruption and promotion of integrity. Will it be nothing more than a flash in the pan? Does this major move on

the part of the provincial party committee give people cause for concern? What is the makeup of the inspection teams and the work teams?

[Fang] The committee considers the task of opposing corruption and promoting integrity to be very important. It will involve leading organs and cadres at all levels. Therefore, the caliber of the team members has to be high and their work style must be upright. They have all been selected from provincial-level offices. Some are members of the Standing Committee of the National People's Congress, some are members of the People's Consultative Conference, and some are department, bureau, or office cadres. The team leaders and deputy team leaders are all cadres with provincial department level responsibilities, and the majority of team members are office-level cadres or at least section-level cadres. Altogether there are 200 people. The provincial party committee inspection teams which I am in charge of have 100 of these people.

[Zhou] Please discuss for us the tasks of the inspection teams.

[Fang] They include the following six aspects:

First, we are to implement the spirit of the 4th Plenary Session of the 13th Party Central Committee by unfolding and adhering to the four cardinal principles and by opposing bourgeois liberalist teachings and degenerate teachings.

Second, we are to oppose graft, bribery, and profiteering, struggle against smuggling and contraband sales, and struggle against other economic crimes. The inspection teams will focus on matters that communities have exposed, examining whether leading cadres at various levels have supported, shielded, or tolerated criminal activities, or even colluded in them at home or abroad.

Third, we are to supervise the clearing up of prominent issues involving the use of authority for personal gain, such as building private homes and other abuses.

Fourth, we are to rectify the cultural market by doing away with pornography and examining and rectifying such dens of iniquity as roadside stands and sauna baths. To eradicate the evil of pornography, the inspection teams will not only supervise and implement policies, they will also, on the basis of community problems, examine whether cadres are taking advantage of their positions to engage in such things as buying bookstores that provide obscene publications and support underworld distribution networks and such things as harboring, tolerating, or supporting the manufacture, distribution, and showing of pornographic products.

Fifth, we are to pay special attention to checking up on and rectifying companies.

Sixth, we are to pay special attention to building clean government with respect to the "two publics and one supervision" [liang gongkai yi jiandu, 0357 0361 7030 0001 4148 4206] for grassroots law enforcement and

administrative bodies and to promoting the Guangdong provincial party committee's key point experiences in Dongguan City, Shilong Township, Jieshi Township, and the Baiyun District in Guangzhou.

[Zhou] What should the attitude be of leaders at the various levels toward being inspected by the provincial party committee's inspection teams?

[Fang] The inspection teams not only represent an effort by the provincial party committee to encourage cities to oppose corruption and promote integrity, they also are focusing on the implementation by municipal party committee leaders of the six points mentioned above. Looking at party organizations and local governments of the province as a whole, the majority of party members and cadres, generally speaking, are good. At the same time, we must also recognize that there is, indeed, corruption within the party. Municipal and county cadres have enhanced their understanding by studying the spirit of the 4th Plenary Session of the 13th party Central Committee. Some have taken initial steps to reform themselves in matters of honesty. We can say that opposing corruption and promoting integrity is a strong desire of the masses and an urgent need of the cadres. This constitutes a central task of the entire party. We expect, with the supervision and help of the inspection teams, that municipal party committees will conscientiously focus their attention on opposing corruption and promoting integrity.

**16 September, 1990**

[Zhou] Comrade Wang Zongchun, can you tell us why the provincial party committee will be sending out discipline inspection teams?

[Wang] All right. I can talk about it to a limited extent. Ever since the 4th Plenary Session of the 13th party Central Committee, we have been keenly aware that the Central Committee was determined to oppose corruption and promote integrity. I felt that we needed to have a correct appraisal of our party's situation. Looking at the party as a whole, the mainstream of party members and cadres are good. Those involved in corruption are an extremely small minority. However, the influence of this minority is extremely bad. They damage the prestige of the party and the government and seriously impair the party's image. During the early stages of the turmoil and counterrevolutionary rebellion in Beijing, as a way of deceiving the masses, those causing the disturbances called for punishing the corrupt and overthrowing official profiteers. We can see how the masses detest corrupt practices. Thus, our current effort to mete out severe punishment to corrupt elements involved in graft and bribery is an action deeply desired by the party and the people. This matter requires a high degree of attention. Punishing corruption pertains to the will of the people and, indeed, to the life and death of the party and the nation. Upon their return from participating in the 4th Plenary Session of the 13th party Central Committee in

Beijing, Lin Ruo [2651 5387] and other comrades convened a series of meetings to implement and firmly grasp the spirit of the 4th Plenary Session. The Standing Committee decided that it was necessary to resolutely oppose corruption and promote integrity by first starting with themselves. Then, on the basis of eight aspects, they issued specific provisions for opposing corruption and promoting integrity. They particularly stressed the strict investigation and punishment of major cases involving graft, bribery, and the use of authority for selfish gain. Urged on by the unified deployment of the provincial party committee, the party committees and governments at various levels began to pay more attention to the work of opposing corruption and promoting integrity, and all took steps to address this task. To ensure that the work of opposing corruption and promoting integrity was being developed soundly and that it intensified continuously, the Standing Committee decided to send discipline inspection and work teams to certain cities and counties to carry out inspections, supervision, and vigorous implementation.

In addition, following the 4th Plenary Session, when the masses recognized that the party was determined to punish corruption, the letters they sent to the party and the visits they made to report situations increased greatly. This was their expression of concern for the party, and it showed how they cherished it. From January to August 1989, the office handling letters and visitors for the Discipline Inspection Commission received 3,855 letters and visits. In August alone there were 1,172, more than four times the monthly average of the previous seven months. At present, more than 10 letters a day are being mailed directly to us. Moreover, the letters and visits we are now receiving typically report much more on problems of cadres at the county or office level. Of these reports, some are turned over to the cities and counties for investigation and, for others, the provincial discipline inspection commission has to dispatch someone to investigate. If the Discipline Inspection Commission were to rely on its presently existing manpower to handle them, who knows how many months or years it might take. For this reason, the provincial party committee decided to transfer a group of cadres with experience in handling cases from provincial offices and use them to form work groups to help the Discipline Inspection Commission investigate major cases involving provincial administrative cadres. This reflects the determination of the provincial party committee to punish corruption and investigate the major cases, and it represents a significant step in implementing the spirit of the 4th Plenary Session.

[Zhou] Who are the people who make up the Discipline Inspection Commission's work teams, and what is their specific mission?

[Wang] In addition to the 30 people transferred from provincial-level organs, there are four veteran comrades from the provincial advisory committee. There are also 17 people who have been transferred from the Discipline Inspection Commission. That makes a total of 51. Of

these, 17 are deputy department- or bureau-level cadres or higher, and 17 are office level. They have formed five work teams that are being sent separately to five cities, five counties, and two provincial-level offices where the masses have reported a large number of problems. The mission of the work teams is first to investigate certain matters concerning provincial administrative cadres that the masses have reported and brought to light. There are also some matters that, although not pertaining to provincial administrative cadres, constitute major cases. The work teams will also focus on them. Second, the work teams will oversee the important cases that the cities and counties are responsible for handling.

The first job of the work teams is to examine and verify the problems the masses brought to light and again decide, on the basis of clearly established facts and according to provisions, whether they are to be submitted for investigation.

[Zhou] In looking at the problems exposed by the masses in their letters and visits, what are the main types of corruption that this minority of cadres in Guangdong has been involved in?

[Wang] The main things we have seen are as follows:

First, there is graft and bribery. These cases have increased quite a bit in the last few years. The greater the amount of money involved, the more odious the methods.

Second, there is using one's authority to seek personal gain. The most glaring abuse is using one's authority to build a house. Some who exploit their positions of authority to build houses even build them to rent or sell for profit. They grab up more land than they are entitled to, with some taking several times the amount of land that is stipulated. Some even take 10 times the amount. They use their positions to buy construction materials at reduced cost and obtain low-interest or no-interest loans, thus impinging on state funds. The source of some of these funds is also unclear. At present in Guangdong, this issue is a heated topic of discussion among the masses and shows their strong reaction to exploiting authority for private gain.

A fairly widespread opinion among the masses is that cadres from provincial- and municipal-level organs who live in state-owned housing use the authority of their positions to supply themselves with high-priced appurtenances or to build fully detached state-owned houses with separate entrances.

In addition, some cadres exploit the authority of their position and violate principles by promoting their wives and offspring to important positions, or give authorization for their offspring and other relatives to go abroad, or to Hong Kong and Macao.

Third, there is smuggling, the sale of contraband items, profiting on the sale of authorization papers and scarce

goods and materials, and the setting up of front companies to cover for other activities.

Fourth, there is the use of authority for extortion. This is reflected mainly in certain administrative departments, supervisory and law enforcement departments, and units administering tickets and documentation where some people take advantage of their opportunities for extortion.

Fifth, there is extravagance and waste, such as violating regulations to build expensive multistoried buildings, halls, hotels, and hostels, importing compact cars, and state-financed travel.

Sixth, there is leading a dissolute life.

Although only a very few people are causing these problems, they are, in fact, examples of corruption and have an extremely bad influence.

[Zhou] What are the reasons for this kind of corruption?

[Wang] The reasons are complicated. Objectively, China is now positioned at the initial stage of socialism. It needs to develop a commodity economy. However, a commodity economy has a dual nature. It can cause people to "see everything in terms of money," and the principle of exchange for equal value can permeate political life as well. Reform and opening up to the outside are means of strengthening the country. However, by opening the doors, degenerate things can seep into the country. At present, we are in the midst of replacing the old system with a new one, and the new system is not yet strong enough. Under these circumstances, some cadres have not been able to withstand the trials of holding office and the trials of reform and opening up to the outside without succumbing to corruption. From the standpoint of our work, what is most important is that during these years we have not thoroughly implemented the party's basic line, we have not consistently adhered to the four cardinal principles, we have not focused on party building, our political and ideological work has been weak, and our management of the party has not been strict.

Following the 4th Plenary Session of the 13th party Central Committee, the leadership at all levels and the broad masses of party members and cadres, upon reflection, achieved a profound understanding of these problems. They are now taking measures to correct and resolve them. We should be fully confident that, under the leadership of the party Central Committee's new leading core, our party has the ability to resolve these problems and that China will definitely advance toward the prescribed targets, reliably, soundly, and smoothly.

18 September, 1990

Comrade Zheng Guoxiong is now presiding over the provincial organizational work conference. This reporter could speak with him only briefly during a break in the conference.

[Zhou] Comrade Zheng Guoxiong, please tell us why the provincial party committee is sending out teams to check up on cadres. What is their mission?

[Zheng] Checking up on cadres is, of course, the regular work of the organization department, and at this point, it has a particularly important significance. To thoroughly implement the tasks set forth at the 4th Plenary Session of the 13th party Central Committee, we have to strengthen party building. To accomplish this, we must first do a good job of building the party's leading groups at all levels. Therefore, the provincial party committee decided to form teams for checking up on cadres. It selected 50 people who were work team members transferred together from provincial-level organs. These teams will at different times separately travel to 19 cities and provincial-level organs to make a thorough examination of leading cadres at the county level and higher.

The checkup will determine whether these cadres have been adhering to the four cardinal principles, whether they have been opposing bourgeois liberalism and adhering to reform and the opening to the outside, whether they have taken a clear-cut stand on the counterrevolutionary turmoil, and whether they have been honest in performing their duties and courageously struggling against corruption. By means of the checkup, we will be selecting for leading positions those superior cadres who are talented and politically honest, who have been adhering to the four cardinal principles, and who have shown themselves to be struggling against bourgeois liberalism. As for those cadres who have problems of one kind or another, we will educate them and help them. On the basis of our examinations, the leading groups at the county level and above will make readjustments and provide strengthening to gradually purify their ranks and perfect their organizations. This will enable the leading groups of the party committees at all levels to truly grasp Marxism-Leninism while adhering to the four cardinal principles and while adhering to reform and the opening to the outside.

#### Schools Faulted for Lack of Patriotism in Curriculum

90ON0183A *Guangzhou KAITUOZHE (PIONEER) in Chinese* No 10, 10 Oct 89 pp 27-29

[Article by Yu Kentang (5713 5146 1016), executive vice president of the Guangdong Provincial Education Society and party secretary of the Guangzhou Education Institute: "A Major Fault of School Education: Patriotism Education Has Been Diluted"]

#### [Text] Reflections on the Student Strike

The large-scale student strike that occurred in April and May of this year [1989] and rapidly grew into an upheaval and even counterrevolutionary rebellion was definitely not an accident. As an educator, having experienced this soul-stirring struggle, I must ponder such questions as: Why could young students whom we have gone to such pains to educate be incited and used by

others to rise up to oppose our own party and government? Did our nation, which is under strained financial circumstances, appropriate large amounts annually to operate universities so that the universities could become hotbeds of upheaval? When the upheavals taking place in their ancestral land were being attacked by Western public opinion, students abroad who had been selected to go abroad to study or teach also took to the streets and demonstrated, blackening the face of their own "mother." Summarizing the lessons of experience from educational work itself, I think that the dilution of patriotism education in the schools is a serious fault.

Stress on patriotism education used to be a glorious tradition of our party and nation. Under the banner of patriotism and under the leadership of the Chinese Communist Party, the Chinese people won the great victories of the new democratic revolution and the socialist revolution, then defeated the long-term blockade of foreign enemies, overcame serious internal problems and made enormous achievements in socialist construction. Since the 3d Plenary Session of the 11th CPC Central Committee, all the people of the country and our compatriots abroad achieved obvious results in reform and relaxation on the basis of promoting the common aspirations of the ancestral land, pooling the wisdom and efforts of everyone, and uniting for struggle. And yet, in the past few years, with the corruption and influence of the bourgeois liberalization thought tide, many excellent revolutionary traditions have been discarded as if they were ossified things and patriotism education also has been neglected and diluted. For example, patriotism education is very little emphasized in the most recently published university, middle school, and elementary school moral education outline or rules of behavior. In many higher schools, political theory classes and Chinese revolutionary history are not stressed enough; in many middle schools, history and geography classes are viewed as "secondary," and the classes are sometimes reduced or even eliminated. Middle school and elementary school language arts teaching materials containing lessons on patriotism ideology have also been reduced. In short, an abnormal situation has appeared: It is as though the history of the ancestral land and the dignity of the nation are not worth serious consideration. At the same time, a large number of works that are trashy or that defame our own people have been published, liberally spreading corrupt Western ideas leading the youth to despise the excellent traditions of their own nation and to worship and yearn for the Western lifestyle. This created ideological confusion and muddled orientation.

#### Survey Materials Spotted the Trend

At a discussion on the ideological characteristics of Guangzhou young people, I recently saw two sets of survey materials which can explain the ideological trends of young people. They are summarized below:

Set 1: "Characteristics of Guangzhou Middle School Students and Mass Broadcasting." The author is Tang

**Hanghao** [0781 5300 3185], a Guangzhou Communist Youth League School cadre. In August and September of 1988, Tang conducted a random questionnaire survey of 367 students in eight classes of four Guangzhou middle schools. The survey results indicate that contact by Guangzhou middle school students with the mass media has the following characteristics: 1) They place importance on up-to-the-minute news. The channels from which they regularly obtain information are broadcasting, television, and periodicals. 2) Favorite programs are domestic entertainment programs. When asked, "What station do you ordinarily listen to?" 159 answered Hong Kong commercial stations, 108 answered Guangdong Zhujiangtai. 3) They worship foreign things and seek novelty. When asked, "What television movies do you like to watch?" 109 answered foreign detective films, 99 answered Hong Kong domestic films, 61 answered martial arts films, but only 11 answered that they watched domestic historical films. When asked, "What kinds of books do you ordinarily like to read?" 93 answered science fiction, 74 answered martial arts stories, 51 answered popular science, and 36 answered romances. Young people's love for foreign things is also expressed in the worship and imitation of Hong Kong and foreign movie, television, and music stars.

**Set 2: "Survey of Ideology and Morality of Guganzhou Municipal University Students."** The author is Jiang Nan [5592 0589], a cadre of the Guangzhou City Education Committee. In December 1988, Jiang conducted a random survey of all levels of four higher schools in the city and collected 396 valid questionnaires. He found the following: 1) Strong self-consciousness. Those who said they were very interested in "understanding themselves" numbered 183, while 129 were slightly interested, which totals 78.3 percent. 2) Their self-esteem is high. Those who felt they had not yet been able to develop their intelligence and ability made up 35.1 percent, those who felt they were partially developed made up 39.4 percent, for a total of 74.5 percent. 3) Those who were dissatisfied or basically dissatisfied with the present social situation made up 58.9 percent, while 11.4 percent did not respond. 4) Only 5 percent felt that they could take action when necessary to uphold social order, while 38.6 percent felt it was none of their business. And 19.2 percent indicated they would walk away. 5) When asked about future plans, 52.8 percent chose becoming a specialist, 18.4 percent chose living comfortably, while only 3.5 percent had being able to realize the four modernizations for China as their ideal. 6) When asked if they believed in fate, 15.7 percent indicated yes, while 49 percent said they sometimes did. 7) There were 54.3 percent who felt that there is a "crisis of confidence" among university students, but only 16.2 percent responded negatively.

The future world belongs to today's college and middle school students, but the above two surveys indicate that the ideological plane of today's college and middle school students is not high and the spirit of giving

themselves to the country is not very strong. They prefer the pursuit of individual interests and the material life, emphasizing self-worth and a rather low ability to discriminate right and wrong. Therefore, when confronted by the thought tide of bourgeois liberalism thought and anarchistic tendencies, some do not know which way to turn and choose blindly, being used by some political schemers, and this is not hard to understand.

#### If You Don't Know Your Country's History, You Can't Grow a Patriotic Heart

We should make patriotism education the foundation for carrying out education on the four principles. If a person doesn't love his own country, how can one imagine that he will be concerned about the future of the nation and the fate of its people? If one doesn't love China, then he will not work hard to do something about the domestic trouble and foreign intervention of old China, and will not be elated about the rise of New China. In the old society, many intellectuals from the exploitative class or reactionary families changed from individual democrats to resolute champions of communism because they had patriotic hearts and the will to save the country. In the early years after the founding of the People's Republic, many famous scientists, such as Li Siguang [2621 0934 0342] and Qian Xuesen [6929 1331 2773], abandoned their excellent working conditions and high salaries abroad, crossed the deep ocean and resolutely came home to build the ancestral land. The revolutionary guide, Lenin, said, "Patriotism is a deep-seated feeling toward one's country which has become established over hundreds of years." In essence, this idea is "the basic guarantee of a nation's existence and growth." It is because of this guarantee that the Chinese people can have a strong cohesiveness and can unite all the sons of China both at home and abroad under the banner of "vigorously develop the Chinese four modernizations" and struggle to build a socialist ancestral land with Chinese characteristics.

Patriotic feelings are inseparable from contacts between the ancestral land and the people, inseparable from the long history and brilliant culture of the ancestral land, and inseparable from the struggle of the Chinese people against foreign invasion and oppression, and thus are bound to improve the teaching of history and geography classes. History itself is filled with patriotic content. The famous noble-minded patriot Ms. Qiu Jin said, "People must have patriotism, but if they don't know the literature and history of the country, then they cannot develop patriotism." Lu Xun also said something similar, "Whether one studies history or science, he should, first of all, read a concise and reliable book about history. Now, colleges and middle schools really should conscientiously arrange for young people to study Chinese history and geography, especially modern and contemporary Chinese history, so that students understand the truths that "without the Communist Party there would be no new China" and "only socialism can save China."

to strengthen the nation's self-respect and sense of pride and improve the self-consciousness of upholding the four basic principles.

Improving patriotism education is especially urgent under the conditions of reform and relaxation. This is because the reform is unprecedented and may encounter many difficulties and there may be errors, clashes with the old system, and it may touch on individual or local interests, and this will require that everyone take the situation as a whole into consideration and put national interests first. We have opened up to the outside and there are many contacts now, but with the importation of advanced Western science and technology and managerial experience, Western goods and cultural awareness also may pour in, and, if we do not strengthen patriotism education, it will be very easy for young people to come to think that China is not as good as foreign countries and socialism is not as good as capitalism. This is the ideological foundation for engaging in bourgeois liberalization. Therefore, improving patriotism education is also a powerful weapon for opposing bourgeois liberalization.

#### We Should Begin When They Are Babies

Improving patriotism education should start in kindergarten and the seeds of love for one's country should be sown when they are small. Lively, vivid, and simple audio-visual patriotism education can be carried out through toys, pictures, photographs, television, games, children's books, and story-telling. In middle and elementary school it can be carried out through classroom instruction and extracurricular activities. The various disciplines should explore the ideological nature inherent in the teaching materials and outside of class arrange to view historical relics, visit famous scenic spots, pay visits to the martyrs' museums, hold ceremonies at revolutionary cemeteries, arrange for intellectual competitions which have patriotic content, hold topical meetings, story meetings, and recreational and sports activities that sing the praises of the ancestral land and the Communist Party, etc. Some schools have adopted such methods as raising the flag and singing the national anthem before morning exercise and holding patriotic, pro-community and pro-school activities on holidays and commemorative days, also could be promoted. In addition to systematically establishing a curriculum in China's revolutionary history and moral education, institutions of higher education also need to arrange for academic discussions, special lectures, visits, social surveys, and topical classes which have patriotic content. In summary, carrying out patriotism education definitely should be integrated with the characteristics of young people, fully utilize teaching materials reflecting local conditions and suited to local needs, and be carried out by levels, systematically and progressively deeper. Instructors should teach by personal example as well as verbal instruction, to impart knowledge and educate people. Improving patriotism education should be stressed not just by schools, but all society should take a

serious interest in it and, when seeking economic benefits, all trades and professions should put great emphasis on social benefits and regard training the next generation to become the successors of socialism as their sacred responsibility.

#### Possible Guangdong Leadership Changes Discussed

HK0901041990 *Hong Kong MING PAO* in Chinese  
9 Jan 90 p 2

[("Special Dispatch": "Central and Guangdong Leaders Are Discussing a Change in the Guangdong Party Committee Secretary and Governor")]

[Text] Guangzhou—Party and government leaders in various cities and provinces in China are being changed following a reorganization in the leadership of the CPC Central Committee. Guangdong Province, close to Hong Kong and Macao, has witnessed major economic development over the last few years. It has more prominent characteristics than other provinces and cities. At the end of last year, leaders from the central government, Guangdong, and Hong Kong held consultations on several occasions to discuss reorganizing the Guangdong leadership. Apart from explaining its policies, the central government also wished to solicit opinions from Guangdong and Hong Kong leaders.

A source with easy access to top leaders disclosed that Lin Ruo, secretary of the Guangdong provincial party committee, will retire because of old age. Apart from this, he has taken an enlightened tactic in the ideological field since 4 June. The Beijing authorities, thinking he is not strict enough, will replace him with Xie Fei.

Ye Xuanping will no longer be Guangdong governor. The State Council intends to replace him with its spokesman, Yuan Mu. But this spokesman's present position is not high. He lacks experience in local administrative and economic work and is not familiar with the special characteristics of south China. Therefore, Guangdong has a strong feeling of resistance against him. Reports say Guangdong Province has instead suggested Vice Governor Yu Fei. Rumors have long been spreading that Ye Xuanping will come to Hong Kong to replace Xu Jiatun, but Ye is said to be willing to stay on the mainland. Ye Xuanping said that Xu Jiatun had made great achievements in his work in Hong Kong and was welcome by the Hong Kong people. Although Xu Jiatun is at an advanced age (in comparison with the first leaders of provinces and cities on the mainland, Xu is the oldest and has long reached retirement age), yet in consideration of Hong Kong's special situation, he is required to stay for a period.

At a banquet yesterday, a top Chinese Government official from Hong Kong revealed that the director of the Hong Kong branch of XINHUA will be replaced by Zhou Nan, vice minister of foreign affairs. Zhou Nan is familiar with Hong Kong affairs, has long been in charge of Sino-British negotiations on Hong Kong's future, and

is a member of the Basic Law Drafting Committee. He came to Hong Kong last year for investigations and to make preparations for assuming the new post. In the past, the substitution of the director of the Hong Kong branch of XINHUA proceeded this way: The new director came to assume office a period of time after the old director left his post. Examples were Liang Weilin and Wang Kuangjun. But this time Xu Jiatun will not leave his post until the arrival of the new director. After the new director arrives in Hong Kong, Xu Jiatun will explain to him the relevant work. After everything is arranged for the switch, he will leave Hong Kong.

### Guangxi Launches New Struggle Against 'Six Vices'

HK1201075990 Nanning Guangxi Regional Service  
in Mandarin 1100 GMT 10 Jan 90

[Excerpts] Last night the regional leadership group for wiping out the six vices held a telephone conference to size up the region's situation in unified action on eliminating the six vices and to assign concrete tasks for launching a new upsurge in the struggle before the coming of the Spring Festival.

Li Zhenqian, a member of the regional party committee Standing Committee and vice chairman of the regional people's government, made a speech at the meeting. [passage omitted] The regional leadership group for eliminating the six vices has made further arrangements for the struggle. Proceeding from the overall demands the group set, it is necessary to launch a new upsurge in wiping out the six vices throughout the region, with the focus on banning prostitution, whorehouse patronizing, and gambling in cities and towns, and with the stress on prohibiting gambling and feudal fetishes and superstitions in the rural areas. [passage omitted]

### Guangzhou Teacher Jailed as 'Counterrevolutionary'

HK1201070390 Beijing ZHONGGUO XINWEN SHE  
in Chinese 1334 GMT 11 Jan 90

[Text] Guangzhou, 11 Jan (ZHONGGUO XINWEN SHE)—This morning, the Guangzhou City Middle-Level People's Court sentenced Chen Zhixiang, a school teacher, to 10 years' imprisonment for the crime of conducting counterrevolutionary sedition. He was also deprived of his political rights for three years.

Chen Zhixiang, 26, was reportedly a former teacher at the Guangzhou Seaman's School. On 7 June 1989, he took a can of paint and a brush to write slogans on the walls along Yanjiang Road Central and Huanshi Road Central. The slogans, which were more than 20 meters long, attacked party, state, and military leaders and instigated the masses to overthrow the people's democratic dictatorship.

Today, the Guangzhou City Middle-Level People's Court passed sentence on Chen in accordance with the relevant clauses of the PRC Criminal Law.

### Hainan Military Holds Seminar on Militia Work

HK1701025590 Haikou Hainan Provincial Service  
in Mandarin 0500 GMT 13 Jan 90

[Text] On 10 January, the Hainan Provincial Military District held a seminar on the regularization of militia training bases in Qionghai County.

The seminar was attended by a total of 63 deputies, including Wang Yuefeng, vice governor of Hainan Province; Pang Weiqiang, commander of the Hainan Provincial Military District; (Ding Yucai), deputy political commissar of the Hainan Provincial Military District; (Liu Hesheng), chief of staff of the Hainan Provincial Military District; and leaders of the People's Armed Forces departments of various provincial party and government organs and various city and county party and government organs.

All the participants at the seminar listened to a report on the experiences gained by Qionghai County, Haikou City, and Wenchang City in implementing the three-year plan for the regularization of militia training bases, which was jointly issued by the Hainan Provincial People's Government and the Hainan Provincial Military District. The participants at the seminar also inspected a militia training base in Qionghai County and held discussions on the specific ways and means of implementing the plan.

Vice Governor Wang Yuefeng and Commander Pang Weiqiang each delivered speeches at the seminar. In their speeches, both leaders stressed that in promoting the regularization of militia training bases, all comrades involved must make unstinting efforts to popularize the valuable experiences of the advanced units and make greater contributions so as to successfully fulfill the three-year plan for the regularization of militia training bases.

### Guangdong Armed Police Commended for Work in Social Order

HK2201141090 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 20 Jan 90

[Text] The Guangdong Provincial People's Armed Police Corps issued an order of commendation to 12 advanced units and 93 progressive individuals in maintaining social order in 1989.

Last year, officers and men of the provincial people's armed police force fought night and day on the forefront of anticrime activities and maintaining public order. The corps sent out more than 70,000 sorties of personnel, who had fulfilled many major security tasks, handled nearly 300 major cases pertaining to public security, and ferreted out 1,170 criminals. To stabilize the general

political situation, all officers and men of the corps made great contributions to the checking of the riots.

### Fujian Meeting of Chief Procurators Ends

OW2501140790 Fuzhou Fujian Provincial Service in Mandarin 1100 GMT 20 Jan 90

[Text] A provincial work meeting of chief procurators, which ended today, stressed that all procuratorial organs must strengthen their anticorruption and antibribery functions and vigorously continue the anticorruption struggle in the New Year.

The meeting said that Fujian's procuratorial organs investigated and handled a record number of major cases last year, but we should not overestimate our achievements. In fact, the anticorruption, antibribery struggle is a class struggle in the economic sphere. This is a long-term task in which we must never relax our efforts. This year, all procuratorial organs throughout the province must concentrate on investigating and handling major or important cases, particularly cases that have a strong bearing on party, government, and law-enforcement organs, and on investigating and handling the departments that have a lot of problems and have been strongly criticized by the masses. Furthermore, all procuratorial organs must strive to raise efficiency in handling cases and in preventing crime.

The meeting seriously studied the system of dividing responsibility for investigating and handling major cases and a number of new measures for strengthening specialized anticorruption, antibribery organs, for improving the crime-reporting system, and for raising the efficiency of procuratorial organs themselves.

Yuan Qitong, Lin Kaiqin, and (Dao Xueming), deputy secretaries of the provincial party committee, called on the participants at the meeting hall.

### Guangdong CPC Committee Discusses Multiparty Cooperation

HK2501132990 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 25 Jan 90

[Excerpt] The Guangdong Provincial CPC Committee held a forum this morning of nonparty personages to discuss matters concerning multiparty cooperation and political consultation. Guo Rongchang, deputy secretary of the provincial party committee, conveyed the spirit of the central authorities on upholding and perfecting multiparty cooperation under CPC leadership and the system of political consultation, and delivered a speech.

Guo pointed out that multiparty cooperation under CPC leadership and the system of political consultation constitutes one of China's basic political systems which conforms to our national conditions.

In the socialist political party system the CPC is the core of leadership of the socialist cause and the ruling party. All democratic parties are friendly parties which accept

CPC leadership, cooperate closely with the CPC, and are devoted to the socialist cause. They have the right to participate in political affairs. We must uphold the four cardinal principles, continue to implement the policy of "long-term coexistence, mutual supervision, showing utter devotion to each other, and sharing honor and disgrace," give full play to the positive role of democratic parties in the country's social and political life, make concerted efforts to maintain overall stability and unity, and promote the socialist modernization program and peaceful reunification of the motherland.

Some 40 persons, including relevant persons from various democratic parties, federations of industry and commerce, and associations of returned overseas Chinese, and nonparty figures, attended the forum. [passage omitted]

## SOUTHWEST REGION

### Tourists Visit Tibet Despite Martial Law

OW1101060090 Beijing XINHUA in English 0243 GMT 11 Jan 90

[Text] Lhasa, January 11 (XINHUA)—Tourists are still visiting Tibet despite the fact that Lhasa has been under martial law since March 8, 1989, an official of the local tourism bureau said here today.

Although the imposition of martial law in Lhasa affected the industry, the official said, the region still received 2,400 tourists between March 5 and the end of 1989.

The tourists came in 240 groups from more than 30 countries. Most came from Federal Germany, followed by France and the United States.

This year, the region received the first group of overseas tourists—27 Japanese—on New Year's Day.

The official said the regional government will continue to implement the open policy and welcome more overseas tourists to Tibet.

The regional government now allows more than 60 Chinese travel agencies to organize overseas tourist groups of at least three persons to visit the region.

The regional tourism departments offer tourists five routes leading from Lhasa to various parts of the region.

### Tibet Honors Those Who Quelled Riots

HK1901075590 Lhasa Tibet Regional Service in Mandarin 1130 GMT 14 Jan 90

[Text] On the morning of 13 January, on behalf of the regional party committee and regional people's government, the personnel concerned, including (Jiang Huaiyuan), deputy secretary general of the general office of the regional party committee; and (Pan Zhenshi), deputy secretary general of the regional people's government, went to Tibet Military District, Tibet Armed Police

Corps, [words indistinct], and Lhasa City to present souvenir badges for the suppression of Lhasa disturbances.

On 13 January, bringing with them the lofty respects of the regional party committee, regional people's government, and the people of all nationalities throughout the region, Comrades (Jiang Huanyuan) and (Pan Zhenshu) went to Tibet Military District, Tibet Armed Police Corps, the regional public security department, and [words indistinct] one after another to present the glittering souvenir badges to the advanced individuals emerging during Lhasa disturbances.

In their speeches, they said that "in the face of the situation of the struggle against separatism, the public security cadres and policemen, Armed Police, the People's Liberation Army stationed in Tibet, and the cadres and residents of Lhasa City have achieved immortal deeds to safeguard the unification of our motherland and to defend the peace and well-being of the people and the excellent situation. The party and the people will never forget you."

They said that, with the support of the foreign hostile force, a small number of separatists at home and abroad created disturbances in Lhasa. This was a serious political struggle to split the [words indistinct], to oppose the Communist Party, and to subvert the socialist system. We must, therefore, maintain a high degree of vigilance, adhere to the idea of grasping with two hands, further consolidate and develop the political situation of stability and unity, and promote and develop our region's economic construction.

The leaders of Tibet Military District, Tibet Armed Police Corps, the regional Public Security Department, and Lhasa City party committee; commanders and fighters stationed in Tibet; and cadres and the masses [words indistinct] held a ceremony to present souvenir badges amid a solemn and warm atmosphere. They unanimously declared that they would seriously study and implement the spirit of the 5th Plenary Session of the 13th CPC Central Committee, of the important instruction of the central authorities on Tibet work, of the eighth session of the third regional party committee, and of the enlarged meeting of Tibet Military District; further do a good job in grasping with two hands; consolidate and develop the region's situation of stability; and live up to the expectations of the party and the people.

## NORTHEAST REGION

### Heilongjiang Reviews Progress in Education, Culture

90ON0158A Harbin FENDOU [STRUGGLE] in Chinese No 10, 1 Oct 89 pp 7-8

[Article by Huang Feng (7806 2800): "Forty Years of Vigorous Cultural and Educational Development in Heilongjiang"]

[Text] In the 40 years since the founding of the People's Republic, along with the growth of our socialist republic, education and culture have also developed rapidly in Heilongjiang Province, particularly since the 3d Plenary Session of the 11th CPC Central Committee, which marked the beginning of a new phase of vigorous development.

**Vigorous Development in Education.** In 1988 primary schools in the province enrolled 4,175,000 students. The proportion of school-age children going to schools increased from 20 percent before the founding of the People's Republic to 98.8 percent in 1988. Primary education was made universal in areas with 99 percent of the province's population. Regular middle schools had a total enrollment of 1,991,000, 90 times that in 1949. Secondary vocational and technical schools enrolled a total of 303,000 students, who accounted for more than 50 percent of the total number of students in all types of senior middle schools. Enrollment in institutions of higher education totaled 789,000, a 15.7-fold increase over 1949. In the past 40 years, 630,000 have graduated from colleges or secondary vocational schools. Adult education also developed rapidly. Enrollment in various types of adult schools totaled 246,000. Preschool education and special education were being developed. An extensive educational network was basically established in both urban and rural areas, and the foundation was laid for the training of qualified people for the economic and social development of the entire province.

**Thriving Cultural Activities.** In 1988 the number of professional performing art troupes increased to 109, 7.8 times the number in 1950, and many outstanding works of art had been created. Mass cultural units increased to 1,362, a 12.2-fold increase over 1950. The number of households engaged professionally in various types of cultural work increased to 4,635, which helped liven up mass cultural activities. Film projection teams increased to 5,985, 106 times the number in 1950. There were 96 public libraries with 9.96 million books. There were 85 cultural centers and museums, 83 cultural and historical sites under provincial protection, and collections of cultural and historical relics totaling 196,000 items. There were 44 radio stations and relay stations in the province, 15.6 times the number in 1949, and 554 television stations and relay stations, compared with only 1 in 1958. A radio and television network was formed, reaching every part of urban and rural areas. The press and publishing industry also grew considerably. In 1988 there were 96 newspapers and 306 periodicals in the province. In the past 40 years, 12,102 book titles, totaling 3.01 billion copies, were printed. The flourishing cultural activities provided the people with rich and sound spiritual nourishment and contributed to the development of the socialist material and spiritual civilization.

**Outstanding Achievements in Public Health.** In 1988, there were 8,7211 public health organizations in the province, 42 times the number in 1949, and the number of hospital beds increased to 105,000, 39 times that in

1949. There were 216,000 professional medical personnel, 74 times the number in 1949. A complete, coordinated, five-level, provincial-city-county-township-village medical and public health network was basically established. Large-scale urban and rural patriotic sanitation campaigns developed steadily. Marked improvements were made in urban and rural environmental sanitation. The incidence of 19 specific infectious diseases dropped to 2.3 percent. Acute infectious diseases were basically eradicated. Keshan disease, goiter, fluorine poisoning, and other endemic diseases were being gradually brought under control. Maternity and child care was greatly strengthened. The mortality rate of pregnant women dropped from 16 per thousand before the founding of the People's Republic to 0.4 per thousand in 1988. Family planning work produced remarkable results.

**Rapidly Developing Sports Activities.** In 1988 there were 4,746 stadiums and gyms in the province, 31 times the number in 1952. There were 162 amateur sports schools, with a total enrollment of 12,102 and 928 full-time coaches. The performance level in various sports continued to improve. Encouraging results were achieved in national, Asian, and world contests. Mass sports activities continued to develop in depth. More than 11 million people were taking part in physical training regularly in the province. At the same time, physical exercises were being popularized on an increasingly broad scale, at different levels, and in many forms, constantly improving the general level of the people's health.

The rapid cultural and educational development has helped the people to improve themselves ideologically, culturally, and physically and has brought into play their intelligence and abilities. It has pushed forward socialist construction in an all-round way. For example, the average person is now much better educated and lives much longer; labor productivity has improved markedly; an increasing number of inventions and creations are being made; there is a stronger sense of democracy; and a "mass style culture" has emerged. All these encouraging phenomena are results of the cultural and educational development.

Looking back on and summing up the course of development in the past 40 years, we are deeply convinced that to maintain continuous cultural and educational growth we must do four things. First, we must insist on building the two civilizations simultaneously. Cultural and educational development is an important component of the building of a spiritual civilization. Socialist construction consists of two parts: the building of a spiritual civilization and of a material civilization. The two complement, restrict, and promote each other. In the 40 years of our country's development, the building of the two civilizations has been split several times. Either the emphasis was placed on the material civilization at the expense of the spiritual civilization, or the other way around. Both tendencies hindered social progress. Therefore, in the course of the modernization drive, we must

pay special attention to maintaining a balance between the building of the two civilizations, avoid emphasizing one at the expense of the other, overcome the urge for quick success and instant benefit, proceed from the realities, and really strive to develop the two civilizations in a coordinated way. We must improve and strengthen ideological and political work and vigorously promote cultural and educational development to mobilize and equip the people first, who are the builders of the material civilization, so that they will strive to build a prosperous material civilization with lofty ideals, selfless dedication, and indomitable will.

Second, we must insist on coordinating social development with economic construction. Cultural and educational development should be based on the needs of economic construction, and in determining the objective and speed of cultural and educational development, consideration should be given to the capacity of the economy. At the same time, we should clearly understand that cultural and educational work plays a tremendous role in pushing economic construction forward. We should not regard cultural and educational work simply as something that costs money and that should wait until the economy can better afford it. We should see that the people play an important role in economic construction, and that the purpose of cultural and educational development is to improve the people's cultural and scientific level and physical health. Cultural and educational development and improved quality of the people will translate into greater momentum for economic construction. Therefore, we should give consideration both to the development of cultural, educational, and other social work and to economic construction and make overall plans for the two to develop in a coordinated and mutually supporting way.

Third, we must adhere to the socialist orientation. Only by adhering to the correct orientation of serving socialism and serving the masses of the people and taking Marxism-Leninism-Mao Zedong Thought as the guidance, will cultural and educational work always advance in the right direction and achieve real prosperity and progress. Under the guidance of the policy of reform and opening to the outside world, we should carry forward China's fine traditions, assimilate what is useful from foreign countries, criticize and discard what is decadent and backward, and, in the course of carrying forward, developing, learning, and using others' experience for reference, develop and bring prosperity to cultural and educational work. Sticking to conventions and "adopting the Western ways wholesale" can only hinder our cultural and educational development and deviate from the correct orientation of our socialist cause. We must firmly resist attacks by all kinds of decadent bourgeois ideas and culture, unwaveringly develop socialist culture and education, and strive to train and bring up a mighty force of people with lofty ideals, moral integrity, education, and a sense of discipline to work for our socialist modernization.

Fourth, we must adhere to the party's policy toward intellectuals. The cultural and educational front is where large numbers of intellectuals congregate. The implementation of the party's policy toward intellectuals is a difficult task of great significance. History has proved that China's intellectuals ardently love the motherland, the party, and the socialist cause. Together with the workers and peasants, they have played a major role in revolution and construction, and they are an indispensable backbone force in the socialist modernization drive. Historical experience has shown us that it is absolutely wrong to look down on or discriminate against intellectuals, and that without the intellectuals, we cannot do our work well and cannot succeed in building socialism. We need to have a mighty force of intellectuals who adhere to the socialist road and have professional knowledge and skills. It should be pointed out that such a force is being formed. We should value and take good care of this force so that it will grow, develop, and gain strength. With social progress and new scientific and technological developments, intellectuals will play an increasingly big role in building the material and spiritual civilization. Therefore, from now on, no matter what storms and setbacks we may encounter, we must trust and rely on the overwhelming majority of intellectuals, and we must not waver in implementing the party's policy toward them. We should do more lively, practical, and effective ideological and political work for the intellectuals and step up education on the party's basic line and on adhering to the four cardinal principles and the policy of reform and opening to the outside world in order to arouse their patriotic spirit and increase their national confidence and pride. We should make continuing efforts to improve the intellectuals' working conditions, wages, treatment, housing, and medical care, to create a good condition and environment for uniting with, relying on, and improving the position of the large numbers of intellectuals. We should believe that in the interests of the country and nation, the vast numbers of intellectuals will work together with the party with one heart and one mind and fight hard to overcome the difficulties on the road ahead.

In the past 40 years, our province has achieved great successes in cultural and educational work and accumulated many valuable experiences. But we should see that the development of socialist construction and continuing improvement of the people's living standard are making higher demands on cultural and educational work. On our road ahead, we are still faced with many difficulties and problems. While consolidating the achievements we have already made, we should adhere to the socialist orientation, persist in carrying out the reforms, rely on the intellectuals, explore continuously, and blaze new trails for still greater cultural and educational development in our province.

#### Commentary on Party Organizations in Enterprises

90ON0184A Shenyang LILUN YU SHIJIAN [THEORY AND PRACTICE] in Chinese No 20, 15 Oct 89 pp 2-3

[Article by staff commentator: "We Must Give Full Play to the Pivotal Political Role of Enterprise's Party Organizations"]

[Text] The party-building work conference, which was recently held by the Liaoning Provincial CPC Committee, emphasized the need to conscientiously strengthen the building of grassroots party organizations, especially the need to strengthen the building of the party organizations in industrial enterprises and to give full play to the role of enterprise's party organizations. Since the 3d Plenary Session of the 11th CPC Central Committee, industrial enterprises' party organizations at all levels have played an enormous role in the course of domestic reform, opening to the outside world, and building Chinese-style socialism. However we must also realize that the role of enterprise's party organizations has been weakened for sometime and the cohesion, attraction, and fighting power of the party has been reduced in enterprises. Therefore, strengthening the building of grassroots party organizations, especially party organizations in industrial enterprises, and giving full play to the role of enterprise party organizations in accordance with the guidelines of the 4th Plenary Session of the 13th CPC Central Committee appears to be extremely urgent.

Enterprise party organizations account for a relatively large proportion of grassroots party organizations. Doing a good job in the building of enterprise party organizations is an important aspect of the building of grassroots party organizations. Adhering to the leadership of the party and giving full play to the combat role of the party cannot and should not be empty talk. A very important aspect of the party's combat role is embodied by playing up the role of grassroots party organizations as a fighting force. The party's line, principles, and policies are also implemented mainly through grassroots organizations. Therefore, doing a conscientious job in the building of grassroots and enterprise party organizations to enable them to give full play to their role is the concrete reflection of upholding party leadership.

Enterprise party organizations hold the central political position in enterprises, so they must play the role of political nucleus.

In accordance with the principle that the party should control itself, enterprise party organizations should first do a good job in strengthening the contingent of party members in ideology, organization, and work style. At present, we should educate party members to understand clearly that the maximum program of the party is to realize the communist socialist system, that in the current stage they should work to build a Chinese-style socialism, and that they must never "confuse socialism with capitalism" in political orientation and the direction of enterprise development. We must make party members, especially party cadres, bear in mind that Marxism-Leninism and Mao Zedong Thought are guiding principles for the CPC and that it is absolutely forbidden to reform the party with the bourgeois political and political party theories of the West. Party members must regard wholeheartedly serving the people

as their sole purpose and never allow themselves to be shaken by extreme individualism and the corrupt idea of "everything for money."

Enterprise party organizations have the heavy responsibility of leading enterprises' ideological and political work and ideological progress. Our enterprises should not only produce material products but also take on the task of training new people who have ideals, morals, culture, and discipline. In the new historical period and in enterprise ideological and political work and ideological progress, we must not forget the danger derived from peace; we should uphold the four basic principles and oppose bourgeois liberalization. We must not forget the master position of the working class. We should persist in wholeheartedly relying on the working class for making the enterprise a success and resolutely follow the mass line. We must not forget to develop the party's fine tradition, firmly carry out education in patriotism, socialism, independence, hard work, and socialist democracy and legal system, resist the corrosive influence of pessimistic and corrupt phenomena in the ranks of party members and workers, boost enterprising spirit, and erect a spiritual pillar among workers.

Enterprise party organizations should give full play to their role of insurance and supervision. They should ensure that the party's and state's line, principles, and policies are carried out smoothly and thoroughly in enterprises. They should ensure that enterprises adhere to the orientation of socialism and that all economic activities of enterprises conform to the principle of socialism. Enterprise party committees should participate in discussion of the enterprise's major issues and put forward their opinions and suggestions. Adhering to the principle that the party should control its cadres, enterprise party committees also have the responsibility of evaluating, understanding, and educating enterprise middle-management cadres and ensure that all newly appointed cadres have sound political qualifications.

Developing the political-nucleus role of enterprises' party organizations does not negate continuing to implement the plant director responsibility system in enterprises, still less does it aim to reduce the role of plant directors. The plant director responsibility system should be resolutely carried out and further improved during implementation, for clear stipulations have been made in the "Law of Enterprises." Plant directors are corporate representatives of enterprises. They have a special and important position, an important role different from any other post, in organizing production, carrying out operations and management, and doing a good job in technological development. Enterprise party organizations should support plant directors in doing their work in an independent and responsible manner. If an enterprise's plant director is full of misgivings and cannot go ahead with his administrative work because he misunderstood the meaning of developing the political-nucleus role of party organization, this enterprise's party committee has the responsibility to explain to this plant director. Sometime ago, during the implementation of

the plant director responsibility system, the tendency of knowingly or unknowingly weakening the role of enterprise's party organization appeared in some enterprises, which has been proved wrong in practice. Today, it will be also wrong for us to knowingly or unknowingly negate the plant director's role and restrict his enthusiasm while emphasizing the development of the political-nucleus role of the enterprise's party organization. We should say that the goals of an enterprise's party organization and director are identical—both are meant to make a success of the enterprise. Implementing the party's basic line adhering to "one center and two basic points," and fulfilling various tasks in enterprise production, operation, and development are the common duties of an enterprise's party and administrative organizations. Party secretaries and plant directors both have unshirkable responsibilities to their enterprises. They should pay attention to party spirit, consider the situation as a whole, and respect and support each other.

Emphasizing the development of the political-nucleus role of enterprise party organizations must not be interpreted as going back to the past practice of confusing party functions with enterprise management under which the party took care of everything. Under the new conditions of the new historical period, enterprise party organizations should develop their political advantage to play a central role both ideologically and politically. They should also pay attention to improving their own methods of work and activity. The goals of party and administrative organizations of enterprises are identical. Enterprise party organizations have the right and should attend to enterprise production and management activities. But their duties and angle of work are, after all, different from enterprise management, so their responsibilities should be separated from the latter. With regard to enterprise production and management activities enterprise party organizations should develop their role of insurance and supervision, but to ensure and supervise must not be interpreted as to take care of everything regardless of its importance; still less should it be interpreted as to willfully interfere with and replace plant directors in concrete work. The work of enterprise party organizations should be reflected mainly in the political field: concentrating on the implementation of line, principles, policies, ideological education, the building of workers' contingents and leading bodies, and the evaluation, training, and utilization of cadres. At the same time, enterprise party organizations should do a good job in coordinating relations between departments and people to make enterprises a united combat collective and ensure that the party's and the state's tasks are fulfilled in an all-round way.

To give full play to the political nucleus role of enterprise party organizations, enterprises should expand and strengthen the party's working organs and political workers' ranks in accordance with the principle of simple and efficient administration. The party's work should not be considered nonessential or a spare-time job. Instead, it should be included in the regular work

agenda. The party's working organs and political workers must not indiscriminately hold more than one post. They should be regular establishments and staff. Some must have full-time staff. Generally speaking, large and medium-sized enterprises should have full-time party secretaries or deputy secretaries and special organs to attend to party affairs. Small enterprises may have part-time personnel, but they must be able to conscientiously carry out responsibilities in this regard. Emphasizing the role of an enterprise's party organization does not mean that the more people involved in party affairs and political work and the greater the scale of this endeavor, the better. On the contrary, party, ideological, and political workers work with people. The nature of this work determines that workers in this field must have a higher quality, so the rank of party and political cadres emphasizes quality instead of quantity. For this job we should carefully select those comrades who adhere to the four basic principles, understand Marxism-Leninism and Mao Zedong Thought, have deep love for the party's cause, show concern for the masses, can keep close ties to reality, and dare to carry out criticism and self-criticism. We should ensure that the establishment of the party's working organs and the assignment of full-time personnel are conducive to strengthening the party's work.

#### **Jilin Meeting Discusses 'Peaceful Evolution'**

40050013A Changchun JILIN RIBAO in Chinese  
28 Dec 89 p 1

[Summary] The Jilin provincial propaganda department, party school, Academy of Social Sciences, Social Sciences Association, and Economics Association held a meeting on 26 December to discuss the West's "peaceful evolution" strategy and how to fight it.

The participants pointed out that "peaceful evolution" and development are the two main international trends. They held the view that the only change in the struggle between socialist and capitalist ideology and systems has been that the West has changed its strategy from one using military might to one using "peaceful evolution." They predicted that the struggle against "peaceful evolution" will continue for a long time and warned that "we must by no means let up our guard."

They also said that the West is attempting to carry out "peaceful evolution" by ideological infiltration of capitalist politics, values, and the capitalist economic model. The participants noted that in recent years, people in China have lost sight of the importance of ideological work and that giving it total attention is the key to combatting "peaceful evolution."

The participants also stressed the importance of resolutely continuing reform and the policy of opening up to the outside. They warned that although Western countries view reform in socialist countries as a golden opportunity to conduct "peaceful evolution," China must not weaken in its will to carry out reform and the

open policy just because domestic and foreign opposition forces are trying to foment change and infiltrate their ideas.

Speakers at the meeting included Liu Guoshu, Gao Zhengqing, Gao Shuquan, Mu Zhonghun, Xu Weixin, and others.

#### **Jilin Mobilizes Provincial Cadres To Go to Grassroots**

SK1201042390 Changchun Jilin Provincial Service in Mandarin 2200 GMT 5 Jan 90

[Text] On the morning of 5 December, the provincial party committee and the provincial government cosponsored a meeting to mobilize cadres of provincial-level organs to go deep into the grassroots.

The provincial party committee and the provincial government decided that before the Spring Festival, we should organize 1,000 cadres of provincial-level organs into work groups and transfer them to cities, prefectures, and autonomous prefectures.

The basic tasks of the work groups as set forth at the meeting are as follows. They should go deep into the grassroots and the masses to intensively propagandize and educate; to disseminate the guidelines of the 4th and 5th plenary sessions of the 13th party Central Committee and the fourth session of the fifth provincial party committee; to carry out education on the current situation and the current tasks; to make public to the masses the current difficulties, the tasks ahead of us, and the measures of the party and the state as they are; to give the people firm confidence in achieving success in improving the economic environment, rectifying the economic order, and further carrying out reforms; and to conduct education on the party's principles and policies of reform and opening the country to the outside world, and on socialism, patriotism, collectivism, self-reliance, and arduous struggle.

The work groups should conscientiously conduct investigations, and study and conscientiously examine the localities' arrangements for material and cultural activities. Meanwhile, the work groups should attend to principal problems and solve some problems in urgent need of solution in a timely manner. The problems that can be solved by the departments and units themselves should be solved quickly. Those that cannot be solved in a timely manner should be submitted to relevant departments.

The meeting stressed that we should strengthen the leadership over the work groups, set strict demands on the cadres to be transferred to the grassroots, and dispense with all unnecessary formalities.

On 8 January, the work groups, headed by some provincial leaders and department and bureau cadres, will respectively proceed to eight cities, prefectures, and autonomous prefecture to carry out their work.

Du Qinglin presided over the meeting. On behalf of the provincial party committee and the provincial government, Wang Zhongyu made a mobilization speech.

Leaders of the provincial party committee, the provincial Advisory Commission, the provincial People's Congress, the provincial government, the provincial committee of the Chinese People's Political Consultative Conference, and the provincial discipline inspection commission were present at the meeting.

### Liaoning CYL Meeting Discusses Goals

SK2101230890 *Shenyang Liaoning Provincial Service in Mandarin* 1030 GMT 12 Jan 90

[Text] After fulfilling the items on its agenda, the meeting of representatives of the Liaoning provincial Communist Youth League [CYL] Committee concluded in the city of Shenyang on the afternoon of 12 January.

During the meeting, the representatives, after carrying out full discussions, approved the work report given by (Sun Zhong), secretary of the provincial CYL committee regarding the task of stabilizing the whole situation as one's own duty; placing one's fate in the hands of the party and the people; waging an arduous struggle; growing up to be useful; and helping to improve the [economic] environment, rectifying [the economic] order, and further advancing reform. They also approved the resolution on guiding youths across the

province to strive to fulfill the tasks of improving the [economic] environment, rectifying [the economic] order, and advancing the reform drive. The resolution points out that the broad masses of youths are the new forces of carrying out socialist modernization. The CYL organizations at all levels should actively carry forward the glorious tradition of boldly fighting tough battles at crucial moments, fully exercise the strong points of CYL organizations and of the broad masses of youths, raise their spirits and unite them as one in waging a struggle, and should make new contributions to stabilizing the economy and making the province flourish.

During the meeting, the representatives also approved the decision made by the provincial CYL committee on enhancing the development of CYL organizations. This decision says that the CYL should make efforts to further enhance the cohesion and fighting strength of CYL organizations throughout the province by conducting work in a down-to-earth manner over the next few years; make the function and social effects of the CYL organizations more manifest; make the CYL more active at the grassroots level; and make CYL organizations the main schools for training new successors, directing youths to study communism and demanding the four requirements of cadres in their work.

During the meeting, the representatives also elected members and alternate members of the provincial CYL committee from among a large number of candidates.

### Taiwan Government Plans To Retain Offices in Hong Kong

900N0215B Hong Kong MING PAO in Chinese  
1 Dec 89 p 2

[Article by Ch'en T'ien-ch'uan (7115 1131 2938); "Shao Yu-ming (6730 3768 6900) Tells Hong Kong Reporters Before the Big Election, Facilities in Hong Kong Will Not Be Withdrawn After 1997"]

[Text] Taiwan's Executive Yuan Hong Kong-Macau Desk spokesman Shao Yu-ming announced that the Taiwan Government hopes that its Hong Kong offices will continue to exist after 1997. Under what name, status, and conditions they would exist are all unresolved issues that will be dealt with when the time comes; it is too early to say. It might be that, come 1997, relations between China mainland, Hong Kong, and Taiwan will have undergone revolutionary changes. Shao Yu-ming, when he met yesterday with Hong Kong reporters who were visiting Taiwan to cover tomorrow's elections, said a new wind is blowing from the recent East European democracy movements. Taiwan's view is that this wave of freedom and democracy in Eastern Europe was influenced by the 4 June incident, that this democratic flood may return to the mainland, causing a renewed democracy movement, and when that time comes there is considerable doubt that the Chinese Communists will be able to handle it. In the past, we regarded the Chinese Communists as a serious danger, but after the 4 June incident they are not a serious threat; they are having problems defending themselves, much less attacking Taiwan. Since they have lost the support of the people, their government may undergo some revolutionary changes. Speaking about Taiwan's policies toward Hong Kong, Shao Yu-ming said that for many years Taiwan has been open to the Hong Kong people to come live, work, and study here. Aside from a few rare individuals who are not allowed to enter Taiwan for security reasons, there are no restrictions. But in the past few years, of more than 10,000 Hong Kong people who have applied, only some 2,000 have really wanted to make Taiwan their home; people's attitudes are beyond Taiwan's ability to control.

He said that Taiwan does not wish to interfere with Hong Kong's political policies, but the steady trade and cultural relations between the two places will gradually increase. He then expanded on this point. In addition to trade, Taiwan's organizations and personnel stationed in Hong Kong are also strengthening ties between the two places and are working to support the Hong Kong people's struggle for democratic freedoms and prosperity, but owing to practical limitations, conditions are not ideal. However, these limitations have not changed Taiwan's determination to support the people of Hong Kong. Shao Yu-ming said, "Our government's basic policy toward Hong Kong is to express the hope that our units stationed in Hong Kong will continue to be there in order to express support for our Hong Kong compatriots. Unless compelled by circumstances to do so, we will

definitely not pull out." As to what form Taiwan's continued presence in Hong Kong would take, he said, "We'll cross that bridge when we come to it. We have been able to retain ties to many countries with which we have no diplomatic relations. These technicalities can be solved." He further said that Taiwan recognizes only Taiwan-Hong Kong relations; Hong Kong's relations with the mainland are Hong Kong's business. Taiwan's relations with Hong Kong do not imply any recognition of the Chinese Communists' policies. On the subject of the election, Shao Yu-ming, who is director of the Executive Yuan's news bureau, said that recently candidates were making public speeches about Taiwan independence, and this has caused some people to criticize the authorities for not arresting them. He said, "If they were arrested, how could we have an electoral contest? We will definitely deal with these illegal speeches, but so far we have not arrested anyone because we hope to rely on the votes of the people to decide whether to allow these Taiwan independence speeches." He stated that the significance of these elections extends beyond loosening restrictions, for this is the first time that the KMT [Kuomintang] has let anyone else put up candidates for office; this is to prove that the KMT is really implementing democracy. In addition, they are allowing opposition parties to register as legal political parties which can openly take part in the elections, which also indicates that this is a fair and just policy.

### Public Opinion Poll Lists Presidential Preferences

900N0263B Hong Kong MING PAO in Chinese  
17 Dec 89 p 23

[Text] A "Public Opinion Survey Foundation" poll reveals that in an election for president and vice president, incumbent President Li Teng-hui would win the most votes for president, receiving the support of slightly more than 75 percent of party members, and the appeal of Secretary Sung Ch'u-yu for vice president would be greatest, with approximately one-fourth of party members supporting him.

This poll has very greatly rocked the Taiwan political arena and some high-level party and government personages are extremely concerned about the poll and its results. Reportedly the "Public Opinion Survey Foundation" will announce the poll results today [17 December 1989].

In addition, according to a CHUNG KUO SHIH PAO [CHINA TIMES] report, the Kuomintang has preliminarily decided that the two major topics for discussion at the ad hoc plenary session of the 13th Central Committee, which is to be convened on 12 February 1990, will be "nomination of candidates for president and vice president," and "study and formulation of a revision to the temporary provisions plan." This "Public Opinion Survey Foundation" poll sampled 1,157 Kuomintang members. The "Public Opinion Survey Foundation" listed a total of 5 candidates in the race for president and vice president, namely Li Teng-hui, Li Huan [2621

3562], Lin Yang-kang [2651 3152 3263], Yu Kuo-hua [0205 0948 5478], and Chiang Wei-kuo. Li Teng-hui received the most votes, with more than 75 percent of those interviewed favoring him. The other four received no more than 10 percent, much less support than Li Teng-hui received. For the vice-presidential race, the survey foundation listed 12 people, namely Li Huan, Lin Yang-kang, Wu Po-hsiung [0702 0130 7160], Chiu Ch'uang-huan [6726 0482 3562], Sung Ch'u-yu, Yu Kuo-hua, Hao Po-ts'un [6787 2672 2625], Lien Chan [6647 2069], Shih Ch'i-yang [2457 0796 2254], Ch'en Lu-an [7115 1462 1344], Ch'ien Fu [6929 1788], and Chiang Wei-kuo. Sung Ch'u-yu received the largest number of votes, supported by approximately one-fourth of those interviewed. Reportedly, Li Huan, Chiang Wei-kuo, and Lin Yang-kang were the second, third, and fourth runners-up. The number of votes each received was fairly close, approximately 10 percent for each of them.

### Professor Questions Credibility of Opinion Polls

90ON0283A Taipei TZULI WANPAO in Chinese  
23 Dec 89 p 5

[Article by Huang Wu-hsiung (7806 2976 7160), professor of mathematics, Taipei University: "Telephone Polls Are Unreliable"]

[Text] A typical so-called "democratic" political system is the process by which citizens elect representatives to represent the public, to be "spokesmen for the people." More accurately, this is indirect democracy; people elect "faces," not "issues." Whether these electees really are clear on and can express the demands of the people in government policy is not really certain. The really important function of indirect democracy is the defense against dictatorship, permitting peaceful transfer of political power, not necessarily the amassing of the actual will of the people to become actual governmental policy.

Only direct democracy can let the wishes of the people be firmly established and carried out. Direct democracy is the simplest form of political ideal, but it is also the most difficult to realize in human society today. To realize the system of representation under indirect democracy and still have vestiges of expressing the will of the people, one generally resorts to citizen votes and to opinion surveys.

The citizen votes directly on matters of major national policy, that is, on "issues." For example, a nation must first secure the concurrence of the people through a vote before going to war. War involves the most precious treasures of the people—life and property, man's civilization, everything. The people naturally have the right to express their opinion (whether there is time to delay is a technical question, not to be determined by one discussion). Or, again as an example, major amendments to the Constitution, organization of the National Assembly, and vesting of sovereignty. Solely because the public vote

has enforcement power, the government should implement it. But governments, in not wanting to do so, use the pretext that the vote adversely affects political stability.

Surveys are just reference studies, without enforcement power, but in real politics there is still a degree of pressure. A properly done survey would at least accurately portray what people want. It is important to Taiwan in the wake of the lifting of martial law. Unfortunately, however, the methodology of several important polls in the past two or three years have had flaws. The use of self-tasking questionnaires and random sampling have been done for the sake of convenience or time and not according to professional requirements. The results not only have not represented public opinion, but have further twisted it.

As an example, telephone polls are most open to debate. After half a century of Japanese colonialism and almost that much time under government martial law, people are generally reluctant to talk to strangers about their political opinion. Particularly in telephone polls, where the caller is a faceless voice, and what is asked has to do with sensitive political views, people are apt to repeat what others say or to hem and haw. Even when it comes to what they think of a certain political figure, aside from fear of getting involved, there are also traditional honesty and hypocrisy on the part of many Chinese. Only in absolutely confidential conditions or through mailed questionnaires would true sentiments be expressed. Furthermore, questions are often hurriedly asked over the phone, the one being surveyed sometimes does not hear clearly or has no time to ponder, so would just say whatever came to mind. Just consider random sampling techniques—the error margin would be much greater than in the United States. In the United States, most people would be at home at night. But in Taiwan, most people had not yet left their labor-intensive jobs. Public servants and upper management would be more likely to be at home and with more regularity, so they would be more likely to be available to get calls. But the self-employed, taxi drivers, small businessmen, people in the service industries, and factory workers would still be out making a living. The survey results are therefore determined by class structure.

But what is really irresponsible is the fact that, once the results are published, sociologists base upon them their boastful interpretations of social significance without checking into the validity of the studies, thus further distancing themselves from true opinions.

The power of figures lies in the action of the true state of affairs. When statistical figures depart from reality, they leave little or no meaning, direct observation would have been better. In a broad sense, statistics are the first part of scientific technique; when man has yet to understand the inner mechanism of natural or social phenomena, repeated observation and data collection are made to form conclusions. Before such conclusions can be made, scientists and sociologists must determine

whether the statistical methodology is accurate and whether everything had been done to eliminate human error. A leading scientist has the piercing eye to separate the true from the false; equally perceptive sociologists can detect the hidden pulse of society. Otherwise, doubling up on errors is just plain irresponsible.

### **Hao Pei-tsun's View on Independence Criticized**

90ON0283B Taipei TZULI WANPAO in Chinese  
24 Dec 89 p 12

[Article by Mo Hsi: "Independence or Not Has Great Significance"]

[Text] In the fashion of "Chu Kuang-jih," Hao Pei-tsun has gone to the Legislative Yuan to declare, on one hand, in self-adulation, "I would not leave any dirt spot on the development of the Republic of China's constitutional development," but on the other hand, trying to frighten law-abiding citizens by saying that if the Communists were to invade Taiwan the armed forces would not protect Taiwan for the sake of preserving Taiwan's independence. We feel that Hao's educational level is such (although his citations of Chinese constitutional history before the Legislative Yuan are faulty) that we should know he is the minister of national defense (fang) and not of national "obstruction" (also pronounced Fang). He stood before the highest temple of the government and publicly declares that if the Communists were to attack Taiwan because of Taiwanese independence, the armed forces would not protect the country. Does this not give the Communists a good reason to attack? It sounds as if Hao is actually welcoming the Communists to Taiwan to pacify a "rebellion." Moreover then, should they really come, our beloved troops would stand idly by, even thank them.

To avert future implications, every citizen living in Taiwan, Quemoy, Matsu and the Penghu Islands should immediately register with local authorities whether they are for or against independence. When the Communists come, then General Hao can quickly segregate the "fors" from "againsts," and identify them for the Communists so that no innocents are killed.

Mr. Chiang Ching-kuo clearly sensed the changing times, the turning of the tide. It was only after listening to General Hao that we realized that the armed forces are also changing. In the past, we were taught that the armed forces loved the people and that the people respected the armed forces. We had thought that these were absolute statements, now we learn that they are relative or selective ones. The love by the armed forces is not unequivocally for one's countrymen, but is dependent upon what goes on in the minds of the citizens and whether it conforms to the criteria of the minister of defense.

Of course, since the defense minister cannot vouch for the protection of an independent Taiwan, when we pay taxes next February, those of us for independence should discount our payment. Should we still pay for the Defense budget? To prevent inner rifts within the armed

forces, pro-independence citizens should refrain from enlisting or be drafted into the armed forces.

Every day, television solemnly warns against any proposal that would split our territory. General Hao has not split our territory. He just split our people.

### **U.S. Notes Lack of Support for Taiwan Independence**

90W0501060490 Taipei CNA in English  
0250 GMT 5 Jan 90

[Text] Washington, Jan. 4 (CNA)—A senior Bush administration official in charge of U.S. Asian policy observed Thursday that advocacy of "Taiwan independence" by some opposition members in the Republic of China on Taiwan [ROC] has not generated much support, and that the ROC Government sees the pattern evolving between Taiwan and the mainland as "beneficial to its interests."

Noting the increasing contacts across the Taiwan Strait and ROC official position, the official said he does not accept suggestion that the ROC is heading toward independence, or secession.

Speaking on background at a luncheon party here, the official pointed out that the ROC Government itself wants to maintain linkages to the mainland and indicates it is not heading down the road towards independence.

As for the contacts across the Taiwan Strait, the senior official said economic investment from Taiwan to Mainland China not only sustained but increased, and that trade contacts through Hong Kong continues at a very active level.

The ROC Government does not want to see those links disturbed, said the official, stressing that they fully understand that "to advocate independence is ultimate provocation to the mainland."

Reiterating U.S. position of not supporting Taiwan independence, the official said five presidents have indicated that they supported the "one China" policy and he anticipated no change of that position.

The official clearly indicated that as long as the ROC Government is firmly opposed to Taiwan independence, advocacy of independence by small number of opposition members is not of serious concern to the United States.

On current U.S.-Red China relationship, the official admitted that the Tiananmen Square event seriously eroded the relationship, but that Red Chinese leader Deng Xiaoping has shown intention to maintain relationship with the U.S.

Commenting on the Fang Lizhi issue, he said it is an important issue but should not be overemphasized, since there are broader problems, such as human rights, how Mainland China students would be treated, and continuation of economic and social reforms.

### Hong Kong Urged To Avoid Sino-Anglo Maneuvering

900N0103A Hong Kong CHING PAO [THE MIRROR] in Chinese No 147, 10 Oct 89 pp 6-11

[Article by Gu Xinghui (0657 2502 6540): "Do Not Get Caught in the Middle as China and Britain Maneuver Diplomatically"]

[Excerpts] [Passage omitted] The British are working hard to achieve three things. First, the Sino-British Joint Declaration on the Question of Hong Kong states clearly that China shall be responsible for Hong Kong's defense and foreign policy after 1997, that China shall have the right to station troops in Hong Kong, and that the central government of China shall pay for the costs thus incurred. Britain now wants to change this provision and has asked the Chinese not to station troops in Hong Kong in peacetime.

Second, under the Joint Declaration, the Basic Law shall be formulated by the NPC [National People's Congress] in accordance with the PRC Constitution. When the Basic Law was being drafted by the Chinese, the Legislative Council in Hong Kong adopted a plan entitled the "Consensus of the Two Councils" which sets the framework for Hong Kong's future political system and the process for bringing about such a system. Everyone knows that the Legislative Council, a consultative body for the governor of Hong Kong, is controlled by London. All members of the Executive Council are appointed by the British Hong Kong authorities. The senior member of the Legislative Council is appointed by the Hong Kong Government. Li Pengfei [2621 7720 7378], who sits on both councils, personally attended the meetings of district councils to persuade their members to support the "Consensus of the Two Councils," declaring that "if China refuses to accept the plan, it will have something to explain to the people of Hong Kong." If he has his way, the NPC will have no choice but to rubberstamp a political plan worked out by the two councils. Yet, nowhere in the Joint Declaration can one find a provision that says the Basic law should be drawn up by the British.

Third, the Memorandum on the Sino-British Joint Declaration states explicitly that all Chinese compatriots in Hong Kong are citizens of China. Britain, however, wants to change this term. It influenced public opinion to generate a demand for the right of residency in Britain in a desperate attempt to create the fait accompli that Britain's favorite Hong Kong citizens are also British nationals. The idea is to perpetuate British political influence in Hong Kong beyond 1997.

The residency right issue is a promissory note issued by the British. The purpose is not to allow the people of Hong Kong to emigrate to Britain after 1997, but merely to prove that a number of British subjects will be citizens of the Hong Kong Special Administrative Region and will enjoy all political rights, including the right to vote and be elected. This group of Chinese, who have the right

to reside in Britain, are senior civil servants in the Hong Kong Government, members of the two councils, or people who wield administrative power in society. The idea is to perpetuate the ruling power of British nationals beyond 1997.

Britain figures that it can exploit the Hong Kong people's confidence crisis after 4 June to put pressure on China to force it to accede to their demands on the Sino-British joint liaison group, in effect, to revise the Joint Declaration through the back door. [passage omitted]

Britain and China will resume their secret diplomacy on their liaison group and "exchange fire" across the negotiating table in the days ahead.

While Deng Xiaoping is undoubtedly the paramount decisionmaker directing this diplomatic duel on the Chinese side, Mrs. Thatcher is the commander in chief for Britain. This test of strength takes place against the backdrop of Western sanctions. Only the backing of collective Western sanctions enables Mrs. Thatcher to put pressure on China. However, collective Western sanctions will not last long. Japan has already restored normal economic intercourse with China and the World Bank has resumed lending to Beijing. The United States, too, is sending out signals to China; if the Chinese take the initiative, Sino-U.S. relations can gradually return to normal. It is certain, therefore, that Mrs. Thatcher will move quickly while the going is good, as delays will only make it harder for her to use the 4 June events to her advantage. Since China is on the defensive at the moment, naturally it has resorted to stalling tactics to counteract the British offensive, neither acceding to nor rejecting its three demands. If it can hold out until after December, China will be able to regain the offensive.

Of course, the Chinese have their flexible side, too. But for the British impatience to have a third of the seats of the legislature filled by direct election by 1991, instead of allowing the political system to dovetail with that after 1997, the Chinese would have taken a more conciliatory position and compromised on the matter. If Britain asks too much and forces a showdown through a public opinion battle, you can be quite sure China will also unveil a political plan of its own to stop the British from stirring up trouble once and for all.

The worst scenario occurred after 4 June. Deng Xiaoping has declared openly that China is not afraid of Western sanctions because they hurt the West too. Against this psychological backdrop, if the British again excite the nationalist feelings of the Chinese leaders, their actions will backfire. The best the British can do now is to beat a retreat while the going is good and cooperate with China to enhance the confidence of the Hong Kong people.

The Chinese will definitely station troops in Hong Kong. Once the Basic Law is passed and the British and Chinese have reached an agreement on the turnover of military facilities, the people of Hong Kong can make proposals to Beijing regarding the nature and size of the

military presence in Hong Kong. The matter will be settled in a reasonable manner.

On residency rights in Britain, the British are merely bluffing and blustering. It is a foregone conclusion that it will not grant any such right to more than 3 million people in Hong Kong, but only to a handful of senior civil servants. This will prove divisive among the citizens of Hong Kong, pitting the pro-British people who have the right of residency against those who enjoy no such right and who therefore feel further estranged from Britain. The ruling authority of Britain will diminish significantly in the coming days when it will be increasingly difficult for it to keep pro-British forces in Hong Kong. This is why. Now that they are allowed to move to Britain, top and middle-level political figures will have a hard time winning the confidence of Hong Kong residents. Their present slogan is "Hong Kong is my home," but their real home is Britain. The Britain had given these people a gift, but also a burden.

Regarding political structural change, there is talk in Hong Kong about "using democracy to resist communism." Before 4 June, "using democracy to resist communism" was an abstract slogan; some people even called it a product of the Chinese conspiracy theory. After 4 June, however, "using democracy against communism" took concrete form in the "Federation of Hong Kong Citizens in Support of the Patriotic Democracy Movement in China," created specifically to overthrow the current Chinese political regime. Naturally, it does not have the endorsement of the Chinese Government. [passage omitted]

Under the Organization Law of Hong Kong, no organization shall establish monetary or political linkages with overseas political organizations or use Hong Kong as a base to overthrow another legitimate government. Registered under the Company Law, the federation is a limited company engaged in ordinary commercial transactions and welfare work. It cannot organize political gatherings or allocate funds against its donors' wishes in aid of political organizations the donors do not wish to support. The donations were for the tens of thousands of students at Tiananmen Square before 4 June; the donors had no desire to transfer their funds to overseas political organizations. The federation has been donating to this and that organization, but has it asked the opinions of the donors? This question has now attracted much public attention. After all, the federation has more than HK\$20 million [Hong Kong dollars] in hand, all donations in small amounts by millions of Hong Kong citizens from all walks of life, and not the hundred or so organizations that make up the federation. Before spending the money, therefore, the federation should heed the wishes of the large number of citizens who are not its members and adopt more democratic procedures (including one man, one vote, advocated so fervently by some people).

Some of the more radical political activities of the federation have disrupted democratic progression in Hong Kong.

Answering reporters' questions on 21 September, Dame Lydia Dunn, senior member of the Executive Council, said that the people of Hong Kong must never act in too politicized a manner toward China in order to avoid giving the Chinese the feeling that Hong Kong is a burden. Participation by the people of Hong Kong in China's internal struggle and their use of Hong Kong as a base of struggle, she pointed out, would not do Hong Kong any good but might convince China that it is a troublemaker.

What she said is typical. The British now realize that the federation has disrupted the British scheme. On the one hand, Britain wants to make use of this force. On the other hand, it worries that it would go too far. The British found themselves in a dilemma.

Then a brilliant idea presented itself. As reported by XINGDAO WANBAO on 22 September, Li Pengfei, senior member of the Legislative Council, told reporters that the council would concentrate on Sino-Hong Kong relations, the boat people issue and the new political system in 1991 in the new legislative year. Since Sino-Hong Kong relations are critical and the activities of the federation have aroused Chinese hostility, he suggested that Li Zhuming [2621 2691 6900] change his role in the federation.

Li Pengfei said that the future of Hong Kong is inseparable from China. Recent federation activities in Hong Kong, such as openly supporting the activities of some democracy movement elements in China and calling for the overthrow of the current Chinese regime during the 4 June events, are intolerable to the Chinese Government. In the eyes of Beijing, the federation seeks to subvert the Chinese Government and Sino-Hong Kong relations seem to be confrontational.

Li Pengfei said that he had proposed to Li Zhuming that the latter resign from the federation and that ideally the federation be dissolved. Li Zhuming had initially accepted the suggestion that he eased out of the federation.

In reality, Li Zhuming has categorically indicated in public that he is opposed to the dissolution of the federation and that he would not resign as vice chairman.

On 23 September the secretariat of the Basic Law Drafting Committee issued the following statement. "The secretariat of the Basic Law Drafting Committee believes that before he resumes his drafting work, Li Zhuming must give an account of himself and declare that he has renounced his original hostile position toward the Chinese Government and his attempt to overthrow it and repudiate the Sino-British Joint Declaration."

The Chinese demand that he clarify these issues is actually prompted by a desire to keep the "one nation, two systems" principle intact. [passage omitted]

Beijing is totally obliged to take measures to placate the people of Hong Kong. Provided they express their concern to Beijing, the latter apparently cannot but make some response, which will probably be twofold: 1) clearly explain the ins and outs of the 4 June incident and its policy in handling it; and 2) guarantee that similar incidents would not happen in Hong Kong.

After 4 June, there was a wide communication gap between Beijing and the people of Hong Kong. The news blackout imposed by Beijing, particularly the restrictions on Hong Kong news media, was a bad mistake, turning the local newspapers completely against Beijing. Denied accurate sources of information, some papers reported unverified rumors as news, stirring up a tide of popular indignation. Subsequently, Beijing reacted too sensitively and defensively toward the political organizations of Hong Kong. The latter became confrontational. There were clever attempts to exploit this situation by some people.

The Yuan Mu [5913 2606] style of propaganda is certainly unfavorable to China. Clearly, one-sidedly and excessively denouncing others for not knowing the truth is an attempt to gloss over one's errors. Beijing made mistakes throughout the 4 June incident. That is an objective fact. [passage omitted]

In contemplating Hong Kong's future political system, we must take 4 June into consideration, without, however, making it the only point of reference. It is imperative that we assess the impact of 4 June in Hong Kong by seeking truth from facts.

Looking back now, radical thinking and action in politics would only mean less speed. This is true for democratization in Hong Kong as well as for the democracy movement in China. Hong Kong has always been apprehensive of the impact of China on its politics. However, the democracy movement in Beijing has indeed been a catalyst for political demand by the people of Hong Kong, touching off a wave of radicalism. People want to transform Hong Kong and get deeply involved in Chinese politics. In reality, once we go down this dead end, a confrontation between Hong Kong and the mainland would be inevitable.

Before 4 June, there were many schools of thought in society regarding the development of Hong Kong's political system. After 4 June, the British came down in favor of the 190 people plan. Hastened into existence by 4 June, the "consensus of the two councils" is completely silent on the idea of gradual change. The thrust of the "consensus" is direct election of more than half the seats on the legislature as early as 1995. It will also make the legislature the leading body.

Under the 190 people plan, all the seats on the legislative council will be filled by direct election by 1997. In comparison, the "consensus" is more cautious.

But it is much more radical than the 89 people plan. (Under this plan, by 1997 27 percent of the seats would

be open to direct election, 46 percent would be elected by functional groups and 27 percent would be elected by the electoral college.) It is also much more radical than the 38 people plan. (Under this plan, by 1997 33 percent of the seats would be directly elected, while 67 percent would be elected by functional groups.)

Realizing that the "consensus" is orchestrated by the British and stands hardly any chance of being accepted by the Chinese, some people hastened to unveil the 4-4-2 plan under which 40 percent of the seats would be filled by direct election, 40 percent by functional groups, and 20 percent by the electoral college by 1997. There is also an undertaking to increase the percentage of directly elected seats to 60 percent by 2001, while functional groups would still elect 40 percent. [passage omitted]

The 4-4-2 plan first caused splits within the industrial and business community and the professions. Luo Kangrui [5012 1660 3843] and others are inclined to compromise with the democratic groups, but people like Jian Fuyi [4675 4395 7392] object to making too many concessions. The centrists take a wait-and-see attitude. Only the democratic group is more enthusiastic about the 4-4-2 plan.

This plan does not lack merit, but after the general electoral college is abolished in 2001, officials of the executive branch will not be able to attend meetings of the legislative council through the channel of the general electoral college, and it will be more difficult for the executive branch to introduce bills to meet administrative needs. The present advantage of executive-legislative coordination will certainly be lost.

"One legislature, two councils" accommodates all strata in society and takes into consideration the fact that party politics are still immature, so it has something to recommend itself. In the next 10 to 20 years, Hong Kong will remain unequipped to produce a political party that can live with "one nation, two systems" and balance the interests of all strata. The use of functional group elections as a supplement during the infancy of party politics will have a stabilizing effect. Any clear headed person knows that the early days of direct electoral politics are a fertile breeding ground for radical political parties. The birth of more than one such party will lead to vicious competition and deal a heavy blow to Hong Kong's political situation.

However, the greatest weakness of "one legislature, two councils" is that it will complicate the voting process, slow down legislative action, and exacerbate communication problems between the executive branch, on the one hand, and the two councils, on the other. Since a bill will need the approval of both councils, either council can hold up a piece of legislation provided half its members so desire. Luo Decheng [5012 1795 0015] originally hoped to use the functional body to veto those bills that go too far in favoring the grassroots. Actually, the directly elected council can veto legislation wanted by the executive branch for administrative reasons,

provided the group that favors a veto has the votes of half the members of the council (or one quarter of the votes of the entire legislature.) This will hamper the executive branch and significantly lower administrative efficiency.

My guess is that if the Chinese and British work out a good compromise, there is no way they will accept "one legislature, two councils." Only if no compromise is reached will the Chinese be forced to consider accepting it to counter the more radical "consensus." A better way out will be for the people of Hong Kong to absorb the reasonable elements of the 89 people plan, the 4-4-2 plan, the 38 people plan, and the "one legislature, two councils" plan and work out a new scheme so as to avoid excessive unrest. [passage omitted]

### Rapid Solution Urged to Problem of Boat People

90ON0157A Hong Kong LIAOWANG [OUTLOOK]  
OVERSEAS EDITION in Chinese  
No 42, 16 Oct 89 pp 22-23

[Article by Li Hong (7812 1347): "The Urgent Problem of the Vietnamese Boat People"]

[Text] Following large demonstrations on both land and sea by residents of the New Territories, on 24 September, the largest labor organization in Hong Kong—the Federation of Trade Unions—issued its petition for another demonstration, this to protest the boat people policies of the Hong Kong and British Governments and to demand that these people be sent back to Vietnam as soon as possible. The petition stated that the Vietnam boat people problem that has perplexed Hong Kong over the past 10-plus years has brought the residents of Hong Kong to an intolerable point, and steps must be taken to resolve it.

### How Hong Kong Has Shouldered the Burden of the Boat People

In order to resolve the Vietnam refugee problem, in 1979, such countries as the United States and Great Britain signed an agreement in Geneva regarding the handling of the Vietnam refugee problem, the contents of which covered primarily three aspects: Vietnam must effectively prevent a large exodus of its citizens; certain countries or regions in Southeast Asia would act as the first reception ports for temporarily receiving Vietnam refugees looking for shelter; and Western nations accepting refugees would take in Vietnam refugees from those first reception ports. It was under this agreement that the British government agreed to make Hong Kong a first reception port.

Some 10 years have passed since then, and the Vietnamese Government has made no attempt to prevent a large-scale exodus of its citizens, even adopting an attitude of collusion to make money from the refugees; the Western nations have passed blame back and forth regarding the detaining of Vietnamese refugees in the first reception ports, and the numbers accepted have

declined annually; faced with this onerous responsibility, Southeast Asia countries and regions that had agreed to be first reception ports have all been unwilling to continue with the obligation as "first reception ports." Actually, Hong Kong has truly become the "first reception port," where arrivals have not been refused and which continues to be the "international humanitarian" duty that is the responsibility of the government of Great Britain.

Many Vietnamese have come to Hong Kong since it became a "first reception port," but the majority of Vietnamese who have arrived in Hong Kong in recent years are certainly not 'refugees' in the original sense of the word, as the majority intend to use Hong Kong as a springboard for seeking better lives in the West.

To deal with the Vietnamese who have been streaming into Hong Kong, in 1982 Hong Kong set up "refugee confinement camps," where they have been isolated from the areas outside the camps. But this measure has not effectively cut off the stream of Vietnamese. Beginning in 1987, the numbers coming into Hong Kong began to rise again, and last year alone saw another 18,000. This year [1989], more than 30,000 have come, with more than 20,000 during the May-June period alone. Because the numbers of Vietnamese arriving in Hong Kong have skyrocketed, each "refugee camp" in Hong Kong is now overfull.

On 16 June 1987, the Hong Kong Government additionally implemented the so-called "screening policy," where, from that day, Vietnamese who enter Hong Kong illegally are screened for "refugee" and nonrefugee "boat person" status in accordance with the "International Refugee Pact" provisions for refugee definition. The former category is settled in the refugee camps awaiting reception by Western nations, and the latter are confined as illegal immigrants in detention centers pending repatriation. By international convention, illegal immigrants should be repatriated. But because certain major Western powers, acting on their own political requirements, have obstructed the process through so-called "humanitarian" and other excuses, the Vietnamese Government has stubbornly maintained its stand of accepting only "voluntary repatriation," and has taken the opportunity to extort economic aid. This has forced the so-called "screening policy" carried out by Hong Kong and Great Britain to lack any effectiveness, since there are no repatriation measures to accompany it. Some boat people who have "voluntarily returned" to Vietnam have done so with a certain amount of style, the result of which has been even more Vietnamese streaming into Hong Kong. According to reports, by 14 September, 42,684 boat people had arrived in Hong Kong, for a total of 56,005 people. Since the screening policy has been in effect, only three groups, totaling 263 boat people, have accepted "voluntary repatriation," during which time some 35,000 boat people have arrived in Hong Kong. It has been discovered recently that

among those boat people who were "voluntarily repatriated," some have come back to Hong Kong with relatives.

The boat people problem has put a heavy economic burden on the citizens of Hong Kong. According to statistics, from 1979 until now, Hong Kong's outlay for Vietnamese refugees and boat people has reached HK\$1.45 billion [Hong Kong dollars]. Actual conditions reveal that the boat people problem cannot be further prolonged. As time goes by, Hong Kong's burden increases.

#### **Hong Kong's Social Problems Have Been Exacerbated by the Boat People Problem**

The pressure that has been brought to bear on Hong Kong by Vietnamese boat people coming here is not simply from the heavy economic burden, but even more serious is a series of such social problems as environmental damage and disruption of public security, which directly affect and interfere with the normal order of Hong Kong's society.

—The exodus of the boat people has disrupted security. Since August, the Shek Kong Boat People Center, which has always been known to have sufficient security measures, has experienced constant escapes by the cutting of wire netting, and whose escapees usually find their way back into the camps after stealing and robbing. According to reports, there are an average of more than 100 escapes every day by boat people from this center, some 2,000 escaping on the most serious occasion. One can imagine the disturbance this has brought to the residents of the area. At the same time, other refugee camps are broadcasting news nearly every day of boat people escapes and disturbances, and even of rape and murder. Pertinent offices have pointed out that the crime rate for the Vietnamese boat people has risen to three percent.

—Fights and riots among the boat people. On 2 September, there was an insurrection caused by gambling that broke out at a refugee camp in northern Hong Kong, which led to one death and many injuries, and where police confiscated dozens of automatic weapons from the camp. This year [1989], five violent conflicts of this type have broken out in the Hong Kong refugee camps, and battles among contending factions of the boat people are ever more frequent. On this point, a UN refugee official acknowledged that this situation is not simply a time bomb planted in Hong Kong, but that "when it is touched off it could grow into a powerful bomb," and a refugee commission member helping to settle refugees also stated that "the current situation is getting more and more explosive, and the trouble for Hong Kong is going to be far greater than it has been."

—Disease epidemics. Recently, an outbreak of cholera in the boat people centers has made people anxious. According to reports, because of pollution and stink from the refugee camps, prime Hong Kong vacation

beach areas began to be polluted in September, and the Hong Kong Government has decided to move 4,500 refugees to other places. Officials acknowledge that it is getting more and more difficult to find places to keep the refugees.

—The boat people problem has caused conflicts between officials and the populace. To break up the over-crowded refugee camps and prepare to settle the never-ending flow of new boat people, all the Hong Kong Government has been able to do is build more refugee camps. In early May this year, the government proposed settling refugees in the Tsuen Wan Four Seasons Building, but this was abandoned after strong opposition from Tsuen Wan residents. In August, the Hong Kong Government decided to build a new refugee center at the Man Yee Reservoir, but this met with resistance from Saigon residents. But, unable to find more suitable areas in which to build refugee camps, the Hong Kong Government has ordered the police to erect barricades at the construction site and to calm the protests, which has led to the first serious confrontation between Hong Kong officials and the populace regarding the problem of the boat people. Public opinion in Hong Kong holds that this event shows that the struggle for locations for refugee camps is actually trouble from urban residents being unable to further tolerate the problem of the boat people, and they are openly expressing their attitude toward the Hong Kong Government. People are worried that if the problem continues to worsen and boat people continue to come, it will be hard to avoid another outbreak of some new conflict.

In its statement regarding policies of the Hong Kong Government toward the Vietnamese boat people, the Hong Kong Trade Union Federation Social Services Commission declared that "the problem of boat people arriving in Hong Kong is worsening, and this is entirely because England and the Hong Kong Government have been carrying out inappropriate policies. At present, cries of discontent are being heard from the public at large regarding the boat people policies of the Hong Kong Government, and social conflicts are intensifying. If the dissatisfaction of the public is to be relieved, the only alternative is to fundamentally resolve the problem of these Vietnamese boat people. Otherwise, there will not only be great pressure from the social economy and public security, but there will also be continued outbreaks of serious confrontation between officials and the public, and between ethnic groups." People are concerned that if the Vietnam boat people question is not resolved, how can there prosperity and security for Hong Kong?

#### **"Quickly Implement Rightful Repatriation"—A Unanimous Demand From All Sectors in Hong Kong**

The problem of the Vietnamese boat people has become an international problem, and all countries of the world, especially the Southeast Asian countries and areas suffering from it, are actively seeking resolution of the

problem. The Chinese Government has maintained throughout that each nation should press the Vietnamese Government to abandon its mistaken internal and external policies, and, based on an attitude of responsibility toward international society and the people of its own country, it should effectively halt the exodus of its citizens. As to those Vietnamese who have come to Hong Kong, they and their children born in Hong Kong should not be entitled to the right to Hong Kong residency, in accordance with relevant resolutions of the China-Great Britain Joint Declaration. Because the fact that Hong Kong became a "first reception center" is an obligation of the British Government, the British Government should be completely responsible for adopting effective measures. This problem should be resolved during the transition phase before 1997, for it will otherwise affect the stability and prosperity of Hong Kong during that time and will bring an undeserved burden to the future administration of Hong Kong.

At present, more and more Hong Kong people are realizing that the disturbance caused by the boat people problem has its origin in Vietnam, but resolution of the problem of boat people arriving in Hong Kong is duty-bound to the British and Hong Kong Governments. They are everywhere demanding that these governments abandon the position that Hong Kong is a "first reception center," that they "rightfully repatriate" Vietnamese who enter illegally, and that they once and for all resolve the problem of the Vietnamese boat people who have troubled Hong Kong for some many years.

#### Key Questions Concerning Post-1997 Political Framework

900ND2234 Hong Kong MING PAO in Chinese  
1 Dec 89 p 25

[Article by Hsu Shih-hsiung (1776 2508 7160), Basic Law Consultative Committee: "Four Crucial Issues Regarding Political System"]

[Text] Prior to the end of 1989, I believe that the subgroup on the political system of the Basic Law draft committee will issue a "final" draft for the political system. The acceptability of this draft by a majority of the Hong Kong people depends mainly on whether the subgroup can properly resolve the following four crucial issues, namely, 1) separate ballots; 2) the election of legislators; 3) how to allow the political system to develop in an orderly way step by step; and 4) the nationality of legislative council members.

#### Separate Ballots

The draft for "one council with two branches" first of all calls for a mechanism for separate ballots in order to ensure "administrative dominance" and stabilize administrative-legislative relations. If we want to implement this mechanism most effectively, the designers of the "one council with two branches" think that it is necessary to divide the council into two branches: a "functional electoral branch" and a "local electoral branch." The

designers of the "overall draft" think that such rigid division of the two branches is inappropriate because it will affect legislature's future efficiency in passing bills. Thus, in their plan, the legislature can use the restricting use of the separate ballot mechanism, and motions proposed by legislators. So doing will both improve the efficiency with which legislators pass bills and motions as well as prevent them from passing certain bills and motions that would embarrass the administrative authorities. The drawback is that it will still be difficult to prevent excessive legislative authority and frequent attacks on administrative authorities, causing administrative organs everywhere to be properly limited by legislative ones. In order to solve this problem, I have proposed making the separate ballot mechanism more flexible by making it a special right by an administrative branch, utilized by the legislature at time of revote. In other words, in cases where the administrative authority disagrees with certain motions or bills passed or vetoed by the legislature, it can order a revote using separate ballots.

At this time it is still difficult to know which of the three above-mentioned voting methods the political system subgroup will adopt in the end. It is also possible that the subgroup will come up with an even better method. But for the time being, no matter what it decides, it appears that it should have rather great opportunities for adopting the separate ballot mechanism.

#### Problem of Electing Legislators

From the numerous drafts for the political system, we can see four among them that the subgroup may quite possibly adopt: 1) Separate elections along functional group lines; 2) local direct elections; 3) election of voting committees (that is, an electoral college); 4) elections by voting representatives. Right now, it is difficult to predict whether the subgroup will include all four of these different voting methods in the "final" draft. From the perspective of equal participation, I think that it is best to include all four of them. Prior to 1997, we can first implement three of them, namely, functional, local, and representative elections. Voting by electoral college delegates will be implemented after the special zone is established in 1997. It is quite appropriate to elect part of the legislature in 1997 after the special zone is established, because the electoral college's administrative election committee will not be formed until about 1996. If so, then we still can ensure political stability from the transition period until the special zone is established by keeping the official legislative seats. After 1997, these official seats can immediately be filled by members selected from the electoral college.

#### Orderly Step-by-Step Development of Political System

During the Basic Law consultative period, the principle of the political system's orderly step-by-step development was unanimously recognized by the Hong Kong

and inland committee members who drafted it. Therefore, the "final" draft definitely must include a mechanism to allow the political system to change in an orderly step-by-step way. It appears that self-criticism is still the best mechanism. However, self-criticism should be done by legislature; it is unnecessary to do it in society. The political system can be changed if passed by two-thirds of the council and then ratified by the Standing Committee of the National People's Congress.

#### *Nationality of Legislative Council Members*

Regarding the matter of the nationality of future special zone legislative council members, Hsu Chia-fun [6079 136? 1470] recently pointed out that the people of Hong Kong have several ideas: "First, those who hold foreign passports can continue to serve as council members in the future. second, after Hong Kong is returned to China in the future, members of the legislative structure should be Chinese because this relates to issues of loyalty. The pledge of loyalty is not limited to the citizens of Hong Kong. For example, there is also loyalty to the Basic Law, meaning recognition of China and China's authority. third, although members can be bearers of foreign passports, their numbers will be limited to a few." According to the many opinions that I have collected, all future legislative council members should be Chinese nationals. Only in this way can permanent residents of Hong Kong who have become Chinese nationals really give expression to the basic rights that are their due. However, on the other hand, in order to reflect the situation in Hong Kong, there can be appointed several functional council members who are not Chinese nationals (although they will not be allowed to act as chairman of the council). One could also allow foreign chambers of commerce to organise a functional body to elect a representative to the council.

#### *Footnote*

1. See WEN HUI PO, 22 November 1989, p 11.

#### **British Company To Sell 20 Percent Stake to CITIC**

HK2612021189 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 26 Dec 89 pp 1, 6

[By Nick Thompson]

[Text] Britain's Cable and Wireless is considering a plan to sell a "significant minority stake" in Hong Kong's largest company to mainland controlled China International Trust and Investment Corporation (CITIC) in a deal which could be worth more than \$10 billion.

Up to 20 percent of the shares in Hong Kong Telecom are being offered to the Chinese following talks which have been taking place over the last month, a spokesman for its parent company has confirmed.

A brief statement was issued from London last night describing the discussions as being at a preliminary

stage, but they have already reached the point where if has been agreed any deal will be based on the average price of the company's stock during November.

That seems likely to be about \$4.55 a share and with more than 11.14 billion in circulation, a 20 percent stake would cost about \$10.14 billion.

Cable and Wireless controls 75.21 percent of Telecom at the moment while the Hong Kong Government holds 6.78 percent—a figure it has said it wants to eventually cut to zero.

A joint offer of eight percent of the shares at 44.55 a year ago with a guarantee that no more would be made available to the public until the end of March 1990.

This, however, does not prevent either Cable and Wireless or the Government from making private placements—the move being considered by the London-based telecommunications giant now.

Market analysts have long suspected the British company might want to further reduce its holdings, particularly in light of the 1997 handover, and a transfer of shares to mainland interests has been seen as a logical step.

CITIC already has an interest in Hong Kong's telecommunications sector through Asiasat.

#### **Decline in Domestic Exports Reported**

HK2612021189 Hong Kong SOUTH CHINA MORNING POST (BUSINESS POST) in English 26 Dec 89 pp 1, 6

[By Ian Perkin]

[Text] Hong Kong's trade performance failed to gain from the normal worldwide pre-Christmas spending splurge this year, reflecting the slowdown in the world economy in recent months and fears of even slower growth next year.

According to provisional figures released by the Census and Statistics Department, domestic exports fell further last month while the growth of re-exports continued to slow.

Domestic exports were down 3.2 percent on November last year, while re-exports grew only 3.6 percent.

Perhaps reflecting a slow-down in domestic demand as well, imports also fell last month—by 3.9 percent—for the fifth consecutive month.

This slowing in domestic demand and demand for high-priced imports may also have been reflected in the inflation outcome for last month, which showed inflation back below double digits.

The inflation figures released by the government last week showed CPI (A) running at an annual rate of 9.6 percent and CPI (B) at 9.4 percent.

The import slowdown also enabled the territory to continue to show a visible trade surplus, compared with a deficit in November last year.

The November retreat in trade growth continues the trend that has been evident since the middle of the year.

It was then that the easing in world economic growth, the economic austerity program in China and the political troubles in Beijing all began to affect the territory's export-import performance.

The latest figures are a clear indication that this month's result is likely to be fairly uninspiring as well.

This means that the full year's figures, while still up on last year, can be expected to be down on the brighter predictions at the beginning of this year.

Despite the second-half slowdown, Hong Kong's overall trade performance for the 11 months is still well up on last year.

For the period, total exports amounted to \$521 billion, for an increase of 17.4 percent or \$77.23 billion on the same period a year ago.

This consisted of domestic exports of \$204.18 billion, up \$7.69 billion or 3.9 percent, and re-exports of \$316.81 billion, up \$69.53 billion or 28.1 percent.

Over the same period, the value of imports grew by \$66.72 billion or 14.9 percent to \$515.33 billion.

This resulted in a visible trade surplus of \$5.67 billion, or 1.1 percent of the value of imports.

This compares with a deficit of \$4.84 billion in the same period last year, which was also 1.1 percent of the value of imports in that period.

As far as the individual monthly figures are concerned, the value of domestic exports last month was \$19.41 billion, down \$640 million or 3.2 percent on November last year.

This compares with a dramatic 17 percent growth in November last year over November 1987.

The value of re-exports for the month was \$30.04 billion, an increase of \$2.34 billion or 3.6 percent over a year earlier.

This, too, is well down on the incredible 57 percent surge recorded in November last year.

Total exports amounted to \$49.45 billion, which was about \$1.7 billion or 3.6 percent higher than in November last year.

In November last year, total exports were up 37 percent on November 1987.

As for imports last month, they were down 3.9 percent or \$1.88 billion to \$46.34 billion from a year earlier. Last year, November imports were up 40.7 percent over 1987.

This meant that Hong Kong had a visible trade surplus of \$3.11 billion last month, which was equal to 6.7 percent of the value of imports.

This compares with a deficit of \$468 million in November last year, which was equal to just one percent of the value of imports in that month.

Commenting on the figures, a government spokesman said the performance of domestic exports had been sluggish since May.

"The negative growth rate in value terms of domestic exports in November was preceded by a smaller negative growth recorded in September," he said.

"There was also a marked deceleration over the past few months in the growth rate of re-exports, largely caused by the continued setback in re-exports to China."

November Trade Performance

|                                    | Nov 1989<br>\$bn | Change on<br>1988 (%) | Nov 1989<br>1989 \$bn | Change on<br>1987 (%) | 11 Month<br>to Nov 1989<br>\$bn | Change on<br>1988 (%) | 11 Month<br>to Nov 1988<br>\$bn | Change on<br>1987 (%) |
|------------------------------------|------------------|-----------------------|-----------------------|-----------------------|---------------------------------|-----------------------|---------------------------------|-----------------------|
| Domestic<br>Exports                | 19.41            | -3.2                  | 20.05                 | + 17.0                | 204.18                          | + 3.0                 | 196.49                          | + 11.4                |
| Re-Exports                         | 30.04            | + 8.4                 | 27.7                  | + 37.0                | 316.81                          | + 28.1                | 247.28                          | + 51.0                |
| Total<br>Exports                   | 49.45            | + 3.6                 | 47.75                 | + 37.0                | 521                             | + 17.4                | 443.77                          | + 30.5                |
| Total                              | 46.34            | -3.9                  | 48.22                 | + 40.7                | 515.33                          | + 14.9                | 448.61                          | + 8.6                 |
| Imports Sur-<br>plus(Defi-<br>cit) | 3.11             |                       | (468)                 |                       | 5.67                            |                       | (4.84)                          |                       |

### Macao Economy Flourishes During Transition to PRC Rule

900N02544 Beijing RENMIN RIBAO OVERSEAS EDITION in Chinese 29 Dec 89 p 5

[Article by Luo Zhaoming (5012 3564 2494): "Macao's Transition Period Work Moves Along Smoothly"]

[Text] XINHUASHE dispatch from Macao. The year 1989 marks the second year of Macao's entry into the transition period. Thanks to friendly cooperation between China and Portugal, and the joint efforts of people in all walks of life in Macao, Macao's society is stable; its economy continues to grow, and all transitional period work is moving ahead smoothly.

During the past year, the Sino-Portuguese joint liaison team and the Sino-Portuguese land team have conducted outstandingly successful work. During this period, the liaison team has held several meetings on problems that Macao will face during the transition period. Wide-ranging views have been exchanged, with agreements reached on issues such as the official position of the Chinese language, and the localization of the civil service and the law. Progress was also made on Macao's entry into the international General Agreement on Tariffs and Trade and into the International Maritime Organization. Understanding was reached on other matters as well; gains were made in many regards for the advancement of friendly cooperation between both parties.

In addition, as time goes by, the importance and urgency of appropriate solution to the three major problems of language, civil servants, and the law in promoting Macao's peaceful transition and the smooth transfer of political power has gradually come to be generally recognized.

The government of Macao has stated several times that solution to the three major problems is a responsibility that the government cannot shirk. Macao Governor Carlos Melancia has said that the localization of the civil service must be genuinely achieved and not be merely a resolve. Officials in charge of departments concerned have also said that a series of localization policies and a timetable is to be presented in the near future to speed up the advent of Chinese as the official language and the localization of the civil service. In addition, various specific actions were taken during 1989. Examples pertaining to the localization of the civil service include recognition of academic credentials from places outside Macao and from nonofficial schools in Macao; readiness to establish a high-level police officer course for the training of local police officers for gradual replacement of Portuguese officials in the security forces; government recruitment of civil servants, priority being given to the employment of local residents; and an increase in supplementary department head and office head positions, these positions to be filled by qualified Macanese. With regard to language, a law was promulgated for the use of the Chinese language in government documents. In the localization of the law, relevant organizations were set up to begin the task of translating the law into Chinese, and collating and revising the law. All these matters help Macao's stable development and the execution of joint announcements.

The year 1989 marked the first year of full launching of consulting work on Macao's Basic Law. Since the Basic Law has a bearing on Macao's stability and prosperity, and the future development of the special administrative zone, it is intimately related to the personal interests of the residents of Macao; thus, it is a matter for concern and close attention of people in all walks of life.

People in all walks of life in Macao have expressed very high political enthusiasm about the drawing up of the Basic Law. They have set up more than 20 groups that

follow the Basic Law with close attention, and that reflect from different levels and different angles the views and suggestions of city residents about the work of drafting the Basic Law. They play an important role in linking the drafting committee, the consulting committee, and the city's residents. Smooth completion of the drafting of a Basic Law (draft) is an achievement for which the groups that follow the Basic Law with close attention and people in all walks of life jointly strive, and in which they actively participate.

Following many years of high-speed economic growth in Macao, a 5-percent annual growth rate continued to be maintained during 1989, and several major economic sectors showed good performance. Foreign trade continued brisk, the total value of foreign trade for the first seven months of 1989 reaching 14.1 billion petacas (the same applying hereinafter), up 12 percent from the same period in 1988. Tourism maintained the prosperity of the previous year, and the hotel industry saw new advances. Tax revenues from gambling for the first three quarters exceeded 1.03 billion petacas, up 55 percent from the same period in 1988. The real estate construction industry consolidated in the midst of readjustment; the completed area built as of the end of July increased 18 percent over 1988, reaching more than 652,000 square meters. The volume of real property transactions also increased. The finance and banking industry developed steadily, with the total savings balance at the end of the third quarter standing at 35.7 billion petacas and the total loan balance reaching 23 billion petacas, increasing by 17 and 21 percent, respectively, over the end of 1988. Banking industry end-of-quarter profits before taxes increased 60 percent, exceeding the level for the same period in 1988. Forecasts for the coming year call for a continuation of the 1989 trend of development of Macao's economy for continued maintenance of moderate growth.

During 1989, large-scale construction projects that have been contemplated for many years entered the construction stage. The primary project, the Songshan tunnel project, was largely completed during 1989. Work on the deep-water port and the international airfield continued. Planning in preparation for the building of large construction projects is currently being speeded up for the second large sea-spanning bridge between Macao and Taipa, the Nanwan Bay dredging project, the refuse incinerator, and the new market area on Taipa Island. These events show that Macao is about to face the most flourishing construction period of its history.

#### Ke Zaishuo Reflects on Work of Joint Liaison Group

HK1001063190 Hong Kong WEN WEI PO in Chinese  
10 Jan 90 p 12

[“Exclusive Interview” by staff reporter He Wei-tzu (0149 1983 1964): “Ke Zaishuo Expresses Feelings Before Leaving His Post”; 9 January 1990]

[Text] News spread yesterday evening that Ke Zaishuo, chief Chinese representative of the Sino-British Joint Liaison Group, will retire very soon. Guo Fengmin, director of the Foreign Ministry's Hong Kong and Macao Affairs Office, will assume the office of chief representative, and his vacancy will be replaced by Chen Ciying, former Chinese ambassador to Portugal.

Are these reports true? Yesterday evening [9 January 1990], this reporter especially asked Ke Zaishuo to confirm the news. Although Ambassador Ke said that they were true, he asked me from which sources I obtained the news. Ke said that he received a circular earlier and also heard about hearsay on the issue. As a matter of fact, he had to leave the post because of his advanced age. The Foreign Ministry is relatively strict in implementing stipulations on age. Once a cadre has reached retirement age, he must leave his post.

How did Ambassador Ke feel about leaving the post he has been familiar with for so many years? Ke replied: "Eight years have elapsed since I took part in the Sino-British talks from the very beginning and the work concerning the future of Hong Kong. I have also assumed the office of chief Chinese representative of the Sino-British Joint Liaison Group for five years. The Basic Law will be finalized and promulgated by the National People's Congress this March. This indicates that the first half stage of the transitional period has been completed. This is the suitable period for me to leave the post. When will I actually leave? Probably after attending the ninth session of the Basic Law Drafting Committee."

Regarding work of the liaison group, Ambassador Ke stressed that the task of the group is to implement the Joint Declaration and ensure the smooth transfer of government. As a chief Chinese representative, his task is to implement the principles and policies of the Chinese Government toward Hong Kong. As these policies are consistent, the work of the liaison group will remain unchanged despite the change of chief representative.

As the first chief Chinese representative of the Sino-British Joint Liaison Group, Ke said he was happy with his work over the years. Over the past few years, he pointed out, "the work of the liaison group has been fruitful thanks to the common efforts made by both sides. We have also attained generally acknowledged achievements in implementing the relevant stipulations of the Joint Declaration. Although the current work of the liaison group has encountered a number of difficulties, I believe the friendly cooperation and effective level between both sides in the past will eventually be resumed so long as both parties strictly follow the Joint Declaration in sincerity."

With a diplomatic career of 20 years, Ambassador Ke Zaishuo engaged in nongovernmental diplomatic activities in the early 1950's in his capacity as representative of the Chinese Students Federation. Later, he became deputy chief editor of ZHONGGUO QINGNIAN BAO.

Beginning in the 1970's, he assumed the following positions in the Foreign Ministry: Deputy director of the International Organizations and Conferences and Treaty and Law Department, deputy director of the Department of International Organizations and Conferences, counsellor of the West European Affairs Department, and director of the Foreign Ministry's Hong Kong and Macao Affairs Office. Ke said that he will return to Beijing after leaving his post. As for future arrangements, he has not yet made up his mind.

#### Retiring XINHUA Office Head Comments on Reform

HK1601020390 Hong Kong HONGKONG STANDARD in English 16 Jan 90 p 1

[By Tammy Tam and Ma Miu-wah]

[Text] The retiring head of XINHUA's Hong Kong office, Mr Xu Jiatun, said yesterday he had done his best to implement the one country, two systems policy in Hong Kong, but the result was "not the best."

He also revealed he had tried unsuccessfully to nominate his successor.

Mr Xu spoke to reporters after a ribbon cutting ceremony at Shekou, Shenzhen, one of his last public appearances in the post he has held since 1983.

He will be replaced later this month by the hard-line Vice Foreign Minister Mr Zhou Nan.

China's top representative here, whose office overlooks the Happy Valley racecourse, said: "Hong Kong is a place where a hundred good horses are competing, and only the fittest win."

Asked if he had been one of the fittest horses, he replied: "it is not for me to comment on my gains in Hong Kong, let the others draw the conclusions."

"I have tried my best (to implement the one country, two systems policy), but the result is not the best." He did not elaborate.

In a remark that surprised observers by its frankness, Mr Xu stated publicly for the first time that he had recommended the Governor of Guangdong, Mr Ye Xuanping, as his successor.

"As you all know, I recommended Mr Ye Xuanping. But he was reluctant to come and, it seems, Guangdong was reluctant to let him go."

The remark confirmed earlier widespread speculation, but conflicted with the practice of Communist Party officials appearing to be unanimous on important appointments.

Meanwhile, XINHUA issued a report yesterday which appeared to indicate that Mr Zhou had already taken over.

It described him as "former Vice Minister of Foreign Affairs" who "has been appointed director of the Hong Kong Branch of XINHUA News Agency."

Mr Xu said he would retire after the Lunar New Year, and would formally introduce his successor to Hong Kong on February 7.

He said he considered the appointment a promotion for Mr Zhou and praised his knowledge of Hong Kong affairs.

Mr Xu rejected speculation that a major reshuffle was likely after his departure: "The only personnel change is me," he said.

A Hong Kong Government spokesman said: "We look forward to establishing a cordial working relationship with Mr Zhou Nan when he comes to Hong Kong, in the same way that we have with Mr Xu Jiatun in the six and a half years that he has been here."

British Foreign Secretary Mr Douglas Hurd said he did not think the appointment of a new XINHUA director would constitute a shift in China's policy towards Hong Kong.

On the appointment itself, Mr Hurd said: "I think it is important to have here in Hong Kong, in this position, someone who clearly is influential in Beijing so that the matters which have to be discussed will be discussed in an authoritative way.

"I think that is an advantage and that is a quality which Mr Zhou Nan possesses."

Liberal leader Mr Szeto Wah said he did not believe Mr Zhou's appointment would bring a change in China's policies towards Hong Kong.

"Anyone sent here is the representative of China and has to implement the policies of the central authorities," he said.

He said Mr Zhou's diplomatic background and relatively junior status made it unlikely that he would deviate from national policy.

"Mr Zhou is relatively junior in both the party and the government, compared to Mr Zu. He doesn't have much room to bargain with Beijing over Hong Kong policy," Mr Szeto said.

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